



Alicon Castalloy Limited

Q2 & H1 FY19 Earnings Conference Call Transcript

November 05, 2018

Moderator: Good Day, Ladies and gentlemen. And a very warm welcome to Alicon Castalloy Limited's Q2 & H1 FY19 Earnings Conference Call. As a reminder, all participant line will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone 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, Ali. Good afternoon, everyone. And thank you for joining us on Alicon Castalloy Limited's Q2 & H1 FY19 Earnings Conference Call. We have with us today Mr. Vimal Gupta – Group CFO; and Mr. Shekhar Dravid, – COO of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session.

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

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

Shekhar Dravid: Thanks, 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 our maiden conference call. I trust all of you have received the results table and the results presentation, which was shared on Friday. Given that this is our first earnings call, I start with a brief introduction of our Company and then share operating highlights, following which Mr. Vimal Gupta will run you through the key financial highlights.

Alicon Castalloy is one of the largest integrated manufacturers of Aluminum castings. The Company enjoys a rich legacy of over 50 years and was a pioneer in low-pressure die-casting technology, gravity die-casting technology and alloy wheel technology in the domestic markets. We provide end-to-end casting solutions to a diversified base of clients within and outside India, catering to various sectors such as automobile, infrastructure, aerospace, energy, agriculture, defense and healthcare. Our robust and innovative product pipeline, spanning 16 segments is delivered from our state-of-the-art manufacturing facilities located in Shikrapur in Pune; Chinchwad in Pune, and Binola in Delhi, in India. In addition, through our subsidiary, Illichmann Castalloy we are present in Slovakia in Europe.

We have developed foundries at strategic locations to key markets, enabling increased speed-to-market and better cost efficiencies. We enjoy long-standing relationships with major, local and international OEMs, including leading two-wheeler OEMs, four-wheeler OEMs, as well as several tier-I and other non-auto brands. With our key customers, we have created a strong and differentiated position as an integrated solution provider.

Customers are viewing us as a partner and solution provider rather than a product vendor. This transformation is due to two key factors, the first is, we recognize that technology was rapidly changing the manufacturing landscape, we embraced cutting-edge technology by deepening our design capabilities and through better integration of simulation and software into the design process. Then we enhanced the prototyping process and deepened our tool room capabilities, which have compressed the design and production lifecycle. With these enhanced capabilities, we now engage with our customers, starting at the technical specification stage itself. We are now regularly providing clients with inputs on technical design and ergonomics so that the components meet the specified function in the most efficient manner. This is then elevated with recommendation for the right mix of alloy and ideal composition of raw materials, which will optimize performance, weight, energy efficiency, while driving down the cost. This approach has allowed us to more deeply engage with clients and emerge as a one-stop shop providing solutions from designs, ergonomics, raw material composition, selection of best manufacturing process, up to manufacturing and delivery of components at any global location.

In addition to the emerging comprehensive solution provider, or a one-stop shop, the second factor behind our transformation is widening the industries and geographies that we serve. **In FY2018, we registered 91% of revenue from the auto industry and about 9% from the non-auto industry.** Our aim is to take the share of the revenues from non-auto sector to 14% in four years; similarly, the global business revenues in FY2018 were 18.5% of the total revenue. We aim to grow this by about 2x in next four years. This includes revenues from Illichmann Castalloy, which is our European subsidiary, which we acquired in 2010. Now that Illichman has completed a gestation period over seven, eight years, and we strongly believe it is ready to move into the next orbit. It is one of our most important imperative to extend leadership in core domestic markets, while also tapping opportunities in a high potential yet under penetrated global market.

We continue to focus on new product lines to address the ever-evolving needs of our customers. In the medium-term to longer-term, we will continue to implement our business strategy across our operational models, augmenting solid gains in the business. We truly believe we are on a strong footing, financially and operationally, and are well positioned to capitalize on the enormous growth potential across the customer industries.

With this, we look forward to your continuing support in our journey, which we believe will create long-term sustainable value for all our shareholders. On that note, I would like to invite Mr. Vimal Gupta to run you through the key financial highlights of the quarter and half year ended September 30, 2018. Thank you very much.

Vimal Gupta:

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

I am pleased to share that we have delivered a healthy performance in the first half of the fiscal, led by an improving demand environment and increased business momentum across customer industries. Our revenue from operations on a

consolidated basis stood at Rs. 602 crore in H1 FY19, as against Rs. 459 crore in H1 FY18, registering a strong growth of 31% on a year-on-year basis.

Domestic revenue during first half grew by 30% to Rs. 495 crore, while export, including overseas revenues delivered a strong growth of 38% to Rs. 107 crore. In line with our growth strategy, export business contributed to 18% of the total revenue in H1FY19, while domestic contribution stood healthy by 82%. During the quarter, our revenues from operation came in at Rs. 306 crore, higher by 17% year-on-year basis.

Coming to our segmental performance, the auto division delivered a strong growth in H1 FY19, assisted by a robust revival in the domestic auto sector. Auto revenues contributed to 89% of the total revenue in H1 FY19. We have been continuously augmenting our contribution from the non-auto and e-mobility segment. In-sync with this strategy, contribution from non-auto segment stood at 11% in Q2.

On the profitability front, EBITDA during H1 FY19 stood at Rs. 73.3 crore, higher by 42%. EBITDA margins were up by 99 basis point at 12.1%. PAT during H1 FY19 grew by 67% to Rs. 26.1 crore. This translated to PAT margins at 4.3%. During the Q2 FY19, EBITDA came in higher by 34% to Rs. 38 crore, with margin at 12.4%. Profit after tax stood at Rs. 13.8 crore, higher by 44% with margins at 4.5%.

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

Moderator: Thank you very much. Ladies & Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: I see that you are trying to increase your non-auto, auto and e-mobility revenue portion. Is it just a risk mitigation strategy or also trying to improve our margins as well?

Shekhar Dravid: It is both the ways, but the basic aim of doing this for Alicon is to have the sustenance at operational level. If any sector is going up and down, or any one industry is going up and down, then as per our strategy, it should not hamper our operational sustenance. That is one of the key look out for doing all these strategic changes. From the point of view of financials, it will add to an additional benefit of bottom-line.

Moderator: Thank you. Our next question is from the line of Saurabh Jain from Sushil Financial Services. Please go ahead.

Saurabh Jain: Could you please highlight what were the key drivers behind the top-line growth and margin expansion? Can you throw some light on this performance stability and trend, going forward?

Shekhar Dravid: If you see the last two quarters, we are seeing a robust growth in the manufacturing sector. That has really helped to upgrade our top-line. In real sense if you see, the two-wheeler industry as well as the four-wheeler industry has picked up good speed in the first two quarters. That has driven our top-line. Secondly, the customer sentiments have improved. There is a transition taking place from BS-IV to BS-VI, and while taking a BS-IV to BS-VI, the existing models are in the running phase, and there are the new models, which are going into the phase of development as well as certain ramp up of volumes. There will be some parallel phase going on. So, based on this, basically we have seen growth at the top-line. Also, there is an

addition of a new business what we have done in last year. Some ramp ups have started in the global business, which are taking place, which is another factor that has led to an increase in the top-line.

Saurabh Jain: I have seen your presentation where you have set a target of doubling your top-line to Rs. 2,000 crore over the next four years. So, can you throw some light on the margin expansion if you have set any target there?

Shekhar Dravid: It is a vision and it will be very premature to comment on the profit margins or anything at this moment. So, we will keep this question in abeyance at this moment.
Saurabh Jain: What is our current capacity and what are our capex plans going forward over the next two to three years?

Shekhar Dravid: The capacity of the plant is 36,000 metric tons, which we are augmenting it to 42,000 metric tons. It is very difficult to pinpoint the exact capex figure because we are working at Alicon with a strategic capacity planning - every quarter we look for the next two quarters. The market is dynamic today and some sectors are growing, while some sectors are not growing. So, each quarter we plan our capacity planning for next two quarters, that is the visibility what we get from our customers. And that gives us a flexibility to adjust the existing capex, the sector which is going down, whatever the existing capacities are reallocated. Why we are specifically thinking two quarters ahead is because the equipment laying down or the increase of the capacity, it normally takes four to six months to indulge into this. We are keeping our fingers crossed right now that there will be other than whatever the capex will come, it depends on every quarter how we move on to it. So, if you are looking for a very specific figure, it will be very premature to comment on that at this moment.

Saurabh Jain: In your opening remarks you said that you are now focusing on e-mobility as well. Could you please tell us what are the products which you have in your portfolio for e-mobility and what is the scope going forward?

Shekhar Dravid: E-mobility is a disruption coming into the market. Whatever the components or engine peripherals what we are supplying right now will be replaced by the three components - the motor housing, the battery housing and the transmission. So, engine will be replaced by these 3 parts. We anticipated this long back, and we started our journey into e-mobility almost three years ago, taking advantage of our European entity. Today, Alicon is ready for any such type of component requirement from the OEMs. All these three parts have been developed by our Illichmann facility in Slovakia and if a domestic customer or any global customer is looking at it, then we will be ready to bring this to Indian facilities. We can develop this component with the shortest possible time to support the customer at that point. The most important thing what we have done, looking at this disruption and looking at all the reports coming down from all the corners of the globe, we have nominated one dedicated key account manager. I am proud to say today that we have identified 71 different customers, out of that we have approached 31 customers globally and out of 31 customers, in last 60 days, we could generate 8 valid RFQs . And today, again, I am proud to declare that one of these RFQs has been converted into a physical opportunity for the sales. So, we are doing the dedicated effort to locate each and every customer throughout the globe, who is interested and going to be a customer in future for e-mobility and that will be tapped from our side as we are market ready for those type of components which will be needed in future.

Saurabh Jain: Over the last two years your staff cost has gone substantially up from almost 50% in absolute terms. So, if you can clarify on that.

- Vimal Gupta:** There is a cost of ESOPs, which is involved in this. So, in the first half, Rs. 11 crore cost was towards this and that was not there earlier in last year. Secondly, we have started hiring some new talent in the Company to take care of future expansion and future growth.
- Moderator:** Thank you. Our next question is from the line of Rukun Tarachandani from Kotak Mahindra Asset Management. Please go ahead.
- Rukun Tarachandani:** Can you please share the volumes that you have sold in H1 FY19?
- Shekhar Dravid:** We work not on volumes, but we work on tonnage. In H1 FY19, it is around 17,500 metric tons of aluminum castings that we have supplied.
- Rukun Tarachandani:** Which means on a full year basis you are running at nearly full capacity utilization?
- Shekhar Dravid:** We are augmenting our capacity by end of this year to 42,000 metric tons within the existing capacity. So, that is already ongoing. With this, utilization will remain between 78% to 80%.
- Rukun Tarachandani:** So, your revenues have grown by almost 30% in H1 FY19. How much of this would have been because of increase in tonnage and how much of this is a function of realization price increase?
- Shekhar Dravid:** In most of the cases with the OEMs and the global businesses, there are price contracts. So majority of growth for first half is basically from the business increase. And maybe whatever the new business which is having an higher VA which we are targeting as strategy, so that has contributed to the increase of top-line. Very few percent of this will be from price increase or any correction in prices. It is very negligible.
- Vimal Gupta:** Definitely there is increase in sales for some customers, wherein our prices are on the higher side.
- Rukun Tarachandani:** If I look at your margins and if I compare it with the few other iron casting companies' margins, your margins are more or less similar. However, one would assume that aluminum castings is higher technology-driven or has higher barriers to entry. So, is that assumption correct? Secondly, if it is then in spite of that why aren't we able to capitalize on it by having a higher margin?
- Shekhar Dravid:** There are two things, foundry business is finally foundry business whether it is cast iron or whether it is aluminum. The top-line of aluminum business is on the higher side, because the material content as compared to the cast iron is on the higher side. Even if this is a very specialized process what we are using, that advantage on a macro level if you analyze it, there is a definite advantage of aluminum foundry as compared to the cast iron foundry. So, we are already capitalizing on the same at this moment.
- Rukun Tarachandani:** Can you share what kind of order book or visibility you have on growth for the coming years?
- Shekhar Dravid:** We are already committed and we have already discussed and declared that it will be almost two times the growth as of figures of FY18 in next four years.
- Rukun Tarachandani:** How do you enter into pricing? Is the raw material predominantly passed through or does it get negotiated? And if there is a lag, how much of a lag is there in passing on the raw material prices?

- Shekhar Dravid:** For all the customers that we are working with, there is a definite formula of raw material indexing that has been finalized and decided before the start of the business. Only thing is that it lags by 30 days - last quarter average prices of raw material are implemented to the next quarter. But in totality, if you take for the span, it normally averages out. And there is no as such an impact as far as raw material pricing is concerned on Alicon.
- Moderator:** Thank you. Our next question is from the line of Divyesh Shah, an Individual Investor. Please go ahead.
- Divyesh Shah:** Since Enkei Japan is holding about 15% in our Company, so what is the role of Enkei Japan in development of our Company?
- Shekhar Dravid:** Two things - the association with Enkei is to improve our face value in the market. Secondly, we are getting the support from Enkei, having a long experience in this field, towards technology upgradation, productivity improvements and third is the reduction of the scrap rate at our end. And for this, we have got our partners, we have got the representatives of Enkei on long-term basis associated with us. Also, we are taking support from them for making our layouts, the existing space how predominantly and how precisely we can use, increasing the per square meter area of manufacturing to increase our sales. These are the two areas where we are significantly being supported.
- Divyesh Shah:** In last two months, there are some media reports about the slowdown in demand in two-wheeler and four-wheeler in domestic market in India. So, do you feel any pinch of slowdown in two-wheeler or four-wheeler?
- Shekhar Dravid:** Yes. If you see the figures of sales of all the vehicles at Dussehra time, they were flat. We are also not seeing very good sales during the Diwali time. And this may be because of three major reasons what we believe: one is the reason of fuel prices which have grown up almost by around 20% in last three months. Secondly, uncertainty into the market and the banking sector what we have seen in last six months, because of that the free money available for the pockets of the consumers is not available. But we are keeping our close watch on this sector at this moment, and it will be very premature to comment anything at this moment. But at this moment it looks like there is some dip in this sector. This quarter we see that there will be some dip. Because normally if you see, in the festive season, we add some few percentage over the normal sales, which we are not seeing, rather there will be some decrease into the sales for this quarter.
- Divyesh Shah:** Regarding our vision statement that by 2022, we want to be about Rs. 2,000 crore turnover Company. Looking at H1 FY19, we are about Rs. 600 crore, suppose we go by that trend, we will be roughly about Rs. 1,300 crore by March 2019. The way in which we have grown in last two years, gives a figure of more than Rs. 2,000 crore by 2022. So, do you mean that within next two years you are factoring some slowdown in the growth rate at which you are currently growing?
- Shekhar Dravid:** I don't think. Today's growth is after a long halt – the growth that we are seeing in last two quarters. We are suspecting that this speed of the growth of the market will not be there and there will be some rationalization and correction into this growth. Hence, we are anticipating the growth of up to Rs. 2,000 crore. That will be the realistic growth rather than anticipating something more, with this growth, some hype has come because of the BS-IV to BS-VI transformation taking place. So, whatever we projected we stand by it and we should be confident about it that growth will be maintained and not the growth during the last two quarters.

- Divyesh Shah:** Regarding the domestic sales between two-wheeler and four-wheeler, what is our two-wheeler percentage and what is four-wheeler percentage in domestic market?
- Shekhar Dravid:** If you see in two-wheelers, specifically one product what we are selling to the two-wheeler market is a cylinder head. And today our share of business in two-wheeler cylinder head market in domestic is 42%. That means irrespective of the brand every alternate two-wheeler vehicle on Indian roads has Alicon cylinder head. So, in totality, we have got around 42% - 43% of our business is coming from two-wheeler industry. And whereas around 27% to 28% business is from the four-wheeler industry. These are all approximate figures.
- Moderator:** Thank you. Our next question is from the line of Ashish Golechha from Ajit Securities. Please go ahead.
- Ashish Golechha:** When the company has next four-year plan to grow the top-line, how do you see the debt equity ratio? Do you see this growth to be funded mostly by debt or do you have any plans to reduce your debt going forward?
- Vimal Gupta:** The Board and the management will take this call time-to-time. After some time, we will have the clear picture about debt to equity ratio that we are going to maintain. But definitely there will be a balance in debt and equity.
- Ashish Golechha:** When you were talking about the 8 RFQs, in which one was physically converted, any idea on what percentage of new customers will be contributing to your percentage of revenue in the current cycle going ahead, when the current metric is Rs. 600 crore and you are targeting Rs. 2,000 crore turnover?
- Shekhar Dravid:** E-mobility is the future and Alicon should be ready for the future market. So, of this Rs. 2,000 crore, e-mobility will be very small percentage of it, but going ahead from 20-21 or 21-22, this will be the new trend of our business, as the chunk of the business will come from this. That is what we are making ourselves ready beyond four years and that is what we started our journey to showcase that, Alicon is always proactive to be in the market with market readiness for whatever is needed in future for the market and Alicon gets itself ready for that. So, really it will not hamper the figures what we are talking off in real sense the e-mobility for next four years.
- Ashish Golechha:** When you are talking about this acquisition, any acquisition currently in pipeline in next one to two years?
- Shekhar Dravid:** No. Because ours is a very typical business and it is very early to talk of it because whatever capacities what we built in and whatever capacities we have, right now we are not looking for any acquisition.
- Moderator:** Thank you. Our next question is from the line of Keshav Lahoti from Natverlal & Sons Stockbrokers. Please go ahead.
- Keshav Lahoti:** Cylinder head is a major part of your revenue. But as e-mobility is coming cylinder heads would not be using e-vehicles. So, do you think your revenues will decrease due to that?
- Shekhar Dravid:** I would like to give a background to this. If you go through the market reports, such as Morgan Stanley has published vision of e-mobility 2030, NITI Aayog report, which is published by the Government of India for 2030 vision for e-mobility, or the global report by one of the renowned house of 2050 vision for e-mobility. The population of e-mobility vehicles in 2030 looks to be around 30% to 35%. So,

balance 65% need will come from the existing ones. And if you see whatever the figures projected through all these reports, the existing requirement of fuel engines what we are talking of, which itself will grow by almost three to four times of what we are supplying today. There will be a major focus on 30% to 35% in e-mobility. So, really this disruption is coming into but it will be very difficult to count it today that technology which is going on today will be totally vanished from the market. Rather, there is a trend that traditional vehicles will also increase in future and we should make ourselves ready to combat that. Now, coming down to your specific question of cylinder head. Yes, whatever cylinder head business we are doing, once it converts into e-mobility, that will be stopped or that will be reduced from our existing basket. But we are ready, because that will be replaced by three components, which Alicon has already developed and ready for that market, if my customer needs it today, we are ready to supply that today. The total component requirement, one vehicle today is around 1,357 kgs. If it goes to e-mobility, the weight of the car or the vehicle is going to increase by 200+ kgs, that means the weight of the vehicle with hybrid or the e-mobility will weigh around 1,500 kgs. So, we are anticipating that the weight of these three components in aluminum will be more than what we are contributing today to the weight of the component supplied to the regular engines. So definitely from the tonnage point of view, there will be increase in that business. So, that disruption is there and we are ready for this disruption coming into. It will not really hamper our top-line as well as the bottom-line.

Keshav Lahoti: On standalone basis, in Q1 FY19, your expense was Rs. 58.7 crore, this year it is Rs. 64.0 crore, up by 10% in three months. What is the reason for this?

Vimal Gupta: Due to the change in the sales mix, more processes are required. Another is that the increase in energy cost increase by the government, so increase from the government side and minimum wage that we have to pay to the people, that has impacted other expenses. So, energy had major impact in the cost increase and the sales mix.

Moderator: Thank you. Our next question is from the line of Kashyap Kartik from Tabletree Capital. Please go ahead.

Kashyap Kartik: I wanted to just zoom out a little bit, look at the journey for the past eight years and then kind of ask the future questions as well. But essentially, from the past eight years and I have been a regular reader of annual reports and any other news that Alicon comes up with. So, from Rs. 200 crore sales to Rs. 1,200 crore sales that will end up in FY19, it is like a fascinating journey. So what led to this massive growth of six times in eight years, A, in terms of management bandwidth? B, in terms of competition? C, in terms of product? This is the first time I am talking to you or you are talking to the investor group, so just wanted to understand your vision, going back eight years and how you saw the company transforming?

Shekhar Dravid: I would like to answer this question in a different way. Basically, when we started our journey into this, as you know, we started our journey as aluminum casting and component manufacturer. By 2007, 2008, we came to know that sticking to only auto sector is going to be a problem as far as the top-line is concerned or the bottom-line is concerned. Thanks for going through and reading our annual reports for last eight years, one thing must have come to your notice that Alicon is one of the auto component manufacturer and supplier without an umbrella of any OEM. We are standalone in the market of our own, supplying to 76 different customers with 685 live parts that is the bandwidth of the business what we have today. Doing this, while the growth was going on, it was mandatory for us to accept whatever was coming into our way till you get a sustainability at an operational level. In 2015, Alicon management had decided to strategize the business philosophy, and at that time, the changeover from our normal way of philosophy, a philosophy called:

fewer, bigger and bolder. In this, Alicon will be producing few components which will be bigger in size and which will have a signature component. And for that, strategy of G5 2022 has been brought in into existence and is in execution from 2015. So, what does G5 2022 mean? We are taking that it is not from the top-line of my organization, it is not from the bottom-line of my organization, it is purely based on the technology and innovations, upgradation at Alicon that Alicon could be one of the top-five foundries, who is able to make most complicated component which top global foundries are making. That is what our base is looking into. So, based on this we have nominated 16 different sectors, which comprises our business strategy to go into. Now since 2015, we started going into this strategy of operating on a niche marketing of 16 specific sectors which will increase our top-line as well as it should give us a benefit at the bottom-line, with technological upgradation, with capabilities and capacities which Alicon has got. At time to time, we as a proactive and dynamic management at Alicon, we go on doing it and refining this depending on the market to take care of the partners like you in the market from the commercial point of view or financial point of view. At the same time, my actual customers who are contributing to my business to take the sustenance of their business also, it becomes important for Alicon. Hence it is a dynamic strategy, which we follow from this point of view.

Kashyap Kartik: At Rs. 200 crore, we were having about 50% gross margin, 11% EBITDA margin. At Rs. 1,200 crore also, we are similar margins in terms of gross and EBITDA. So, in terms of bigger, bolder, fewer, aren't we seeing, or will we be seeing this gross margin profile increasing? We are not seeing any uptick in spite of going from a Rs. 200 crore to Rs. 1,200 crore with multiple business lines, with multiple segments. So, if you could just give us an insight around how the business actually works and why the gross margin has not changed for the past eight years?

Shekhar Dravid: If you see, it is a foundry business and it is a very labor-oriented as well as cost-oriented organization. In all the foundries in the globe, the outgoing prices are controlled by the market and the incoming raw material prices are also controlled by the market, where we do not have our direct control over it. What remains with us is how efficiently we can run our operations to generate margins. So, this is one of the reasons that when we were doing, everything which was coming our way, the margins were in the same line, which we are projecting. That is why when we realized that now we have attained certain level of sustenance of business at top-line, we decided to change our business philosophy to fewer, bigger and bolder. See, it is difficult for us to put any figure at this moment at which we will grow and what will be the margins anticipated once we grow to that level. So, that is what is an answer from my side as far as the business point of view is concerned. But I would like Mr. Vimal to add one or two points to it.

Vimal Gupta: We are at the same level of the margins but you can see in the current year some improvements are happening now. So, till March 2017, our growth rate was not so much on the large scale, it was in the single-digit, cost pressure was also there, so margins were at the same level. Now from last year, you can see that improvement has started and management is focused on that. In the future, we expect to see some improvements.

Kashyap Kartik: From a business perspective, could you just throw light on competition, both locally and globally? How is our potential for the export market in the next few years?

Shekhar Dravid: Basically, we are trying to come out of the competitive business. We will remain into the competitive business but we would like to come out of the competitive business. We want Alicon to be with the G5 2022 vision, that Alicon should be in the market not from the point of view of the top-line or bottom-line, Alicon should stand by the innovations and the technology what we are bringing in advance in India for Alicon to our customers. This will give us an advantage in commercial perspective, where

we can get a premium value for the technologies, which are not available. If Alicon has got that, certain added premium Alicon can charge to the customer at that time. And customer also will not mind giving that premium value to Alicon. That is what is our strategy looking at it from the point of view of business.

- Kashyap Kartik:** On exports, will we see the traction or we have just started on that journey?
- Shekhar Dravid:** We started our journey long back. And as you know, it takes longer time for the global business to get instated. I am proud to say today and give you confidence that whatever the journey we had in last three-four years with our global requirements, we are seeing that there is a lot of enthusiasm with the global customers, who are approaching us and there is a positive response from these customers, which was not there earlier, four or five years back. And we are anticipating that the global business should be a prime business in future for Alicon coming down the years.
- Moderator:** Thank you. We will take the last question is from the line of Rohit Ohri from Progressive Share Brokers. Please go ahead.
- Rohit Ohri:** We have been working on this Greenfield project, which is in Khed district of Pune. So, has there been any development?
- Shekhar Dravid:** We are ready with our plans, the land is already acquired, we are ready with all the sanctions and everything from every corner. Also, the layouts in the final stage are getting authenticated and validated by our partners in Japan by Enkei. As I said earlier, our capacity calculations, we do every quarter and we are keeping fingers crossed when to kick off this project, what will be the right moment to kick it off. We are mentally, physically, financially prepared for this kick off, but the right time we will declare it at an appropriate time which may be tomorrow, which may be day after tomorrow. But that depends on how the market moves. Because once the investment is made into the foundry project, that investment value once you open the box of an equipment, the value reduces to 25% because the foundry equipment is not a general purpose equipment, these are all very specialized and special purpose machines. So, we have to be very conscious going into this decision. We are not saying at this moment, but we are holding on our pulse with the market, right now. If the market wants it, we will be having this plant ready within next nine to ten months. We have made all the ground preparations for that.
- Rohit Ohri:** I understand that there is debottlenecking that is happening at Shikrapur and Chinchwad and capacity will be increasing from 36,000 metric ton to 42,000 metric tons. If at all, the Khed plant comes into existence, then what would be your capacity?
- Shekhar Dravid:** To start with, it will be around 10,000 metric tons per annum in the first phase. But in the total run, it will be 20,000 metric tons when the full capacity of that plant is utilized.
- Rohit Ohri:** I have been tracking Alicon since a long time, it is your endeavor to become the top five foundry in terms of innovation in the world. And you are constantly working towards certain non-auto segments, i.e. defense, energy, healthcare. If you can just throw some light on what developments, have we done in case of defense? Because your annual report speaks quite loud on conversion from cast iron to aluminum wheels that has been happening. So, what sort of orders are you getting in terms of defense or maybe healthcare, if you can just highlight a bit on that?
- Shekhar Dravid:** Irrespective of all these things, this development we have started long back. We are supplying to defense wheels, which we will call as rim wheels, and that goes to the

battle tank. And initially these wheels were in forged cast iron or steel forged wheels, but at that time, the tanks were plying at the rate of 35 kilometers per hour and now the total war technology has been changed and it requires fastest movement of equipments. So, in the first phase, this has been increased from 35 kilometer per hour, now it has been augmented to 75 kilometer per hour. So, there is a revamping of all the vehicles to convert those wheels into aluminum wheels. There are three technologies defense has nominated - one technology through aluminum forging, one through aluminum machined from the bar stock and the other is through low pressure die casting. In low pressure die casting, Alicon is the only one of the supplier for this technology today to supply to defense. Now coming down to your question, as you know till last year or two years back, the government was not so open on the defense outsourcing. But now in last two years, they have started looking at outsourcing of this and they are discussing - a lot many OEMs have entered into this, i.e. Tata Motors, L&T, Ashok Leyland, Mahindra & Mahindra, these are the big players who entered into this business. These businesses, from the point of view of defense, will open us for these new businesses. So, we are looking at whatever the components are there right now we are supplying the quantities and the volumes of that will grow into next two, three years' time. Coming down to this, as I said, from 35 kilometer per hour to 75 kilometer per hour, that means it is calling for a definite light weighting of a vehicle, even in battle tank also they are thinking of making a light weight vehicle so that it can travel at a higher speed with an efficient weight. For doing this, a lot many projects are undertaken by the defense industry, where it will be very premature or early stage to open out and discuss, because there is some secrecy to be kept from defense point of view. But at this moment, we are working on three projects, which are the conversion projects from cast iron to steel pressing components to be converted into aluminum castings. So, definitely, we are looking at this because the market has opened out for the defense business. And more and more opportunities, we are working it out. You will come to know within next six or seven months of time, some different things into where we are entering into for the defense business. It is at a very premature stage to comment on this at this moment.

- Rohit Ohri:** Do we have any order book?
- Shekhar Dravid:** 3,340 rim wheels needs to be supplied in next 2.5 years to Indian defense. And we have already got the LOI for that. It comprises to around Rs. 70 million business.
- Moderator:** Thank you very much. I now hand the conference over to the management for their closing comments.
- Shekhar Dravid:** Thank you for giving us an opportunity to explain about our organization and showing a lot of interest in our organization. I hope we have answered all the questions satisfactorily to the extent what we feel. If anybody has any question you can route through and put it through us through mail, through Mr. Vyas so he can take care of that. Taking the final note, we wish you all a very Happy Diwali and prosperous New Year. And look forward to engaging again next quarter. Thank you very much.
- Moderator:** Thank you. Ladies & gentlemen, on behalf of Alicon Castalloy Limited, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.

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