Alicon Castalloy

Q2 & H1 FY20 Conference Call Transcript
October 18, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Alicon Castalloy's Q2 & H1 FY20 earnings conference call. As a reminder, all participants' lines 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 * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you, Mr. Vaswani.

Mayank Vaswani: Thank you, Janis. Good day everyone and thank you for joining us on Alicon Castalloy Limited's Q2 & H1 FY20 Earnings Conference Call. We have with us today, Mr. Rajeev Sikand – Group CEO and Mr. Vimal Gupta – Group CFO of the company.

We will begin the call with opening remarks from the management team. Following which, we will have the forum open for a question and answer session. Before we begin, 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 documents shared with all of you earlier.

I would now like to hand over the floor to Mr. Rajeev Sikand for his opening remarks.

Rajeev Sikand: Good afternoon everyone. On behalf of the entire management team of Alicon Castalloy, I would like to extend a warm welcome to all of you on the earnings conference call. I trust all of you have received the results documents along with the press release on order wins.

During our call last quarter, we had discussed the headwinds faced by the auto industry, both locally and internationally, which were impacting the demand. Suffice to say that the operating environment continues to be challenging and we continue to navigate what has clearly emerged as an unprecedented slowdown for the auto industry.

Last quarter, we had also discussed our response to the operating circumstances. We are focused on tightening of costs, enhancing efficiencies and innovating in manufacturing processes for leaner operations. I am pleased to share that there have been some initial results from these efforts - we have delivered a steady set of results during the quarter with improved profitability in Q2 compared to the immediately preceding quarter. This has also been made possible by our customer-centric approach, where we are highly focused and aligned with customer requirements. Customers are navigating an uncertain terrain as they need to contend with regulatory changes, technological changes and shifting customer preferences. In this scenario, we are completely alongside our customers as we seek to jointly execute the optimal requirements to ensure that operations are conducted smoothly and profitably.

Last quarter, we had undertaken a series of steps to compress inventories across our global operations in addition to curtailing costs and overheads. This had impacted the performance in the previous quarter and also had a bearing on the performance for Q2. We expect this to stabilize by mid - Q3.

On the operational front, I am happy to share that Alicon has won multiple order wins from global OEMs and Tier 1 suppliers in Q2 FY20. These order wins are primarily for new platforms and new models. We are very excited about these orders as they are at the forefront of industry evolution. For example, the JLR order is for a compact structure part that is technology agnostic hence can be used across Internal Combustion engines, Hybrid or Electric Vehicles. JLR believes this will enable them to maintain market share no matter what the mix of vehicle technology in the foreseeable future. This will also allow us to witness stable and consistent volumes. We believe this is the route that many of the global OEMs will pursue and are excited to be a part of this project. Similarly, the order from Samsung SDI is for their e-mobility platform which we expect will be established as one of the standard platforms in key markets across the globe. It is exciting for us to be associated with a project like this which is at the forefront of the e-mobility trend.

Coming to the segmental developments – In the core auto segment, we received a steady stream of enquiries, especially from the international markets. We also introduced a new portfolio of innovative and high-potential parts to help boost product efficiencies in the 2 wheeler, 4 wheeler and CV categories. Further, with the deadline approaching for the implementation of the new BS-VI regime, we are also anticipating a rise in volumes of BS-VI vehicles ahead of the implementation deadline. We already have designs of several BS-VI components in place, and are actively engaged with potential customers.

On our e-mobility segment, in addition to the Samsung order win that we announced, we continue to make progress in discussions with domestic and global OEMs, who are already engaged in e-mobility platforms. As we have shared, we have built up a strong team for this and are confident that our capabilities, processes, track record and intellectual property position us really well to win sizeable business in this space.

We are also pursuing opportunities in various sectors like Infrastructure, Aeronautics, Defense, Energy and Agriculture. Our non-auto revenues have stabilized at 10% over the last few quarters vindicating our stand of the potential opportunities that we can cater to. With a nascent track record in place, we are working on potential new products, new customers and new markets that can help us to build on the platform of non-auto revenues that we have already built.

Most importantly, we continue to focus on medium to long term objectives even as we work to address near term challenges. Strategic initiatives of pursuing large global customers, striving for higher share from emerging technologies and driving value accretion continue unabated.

We are also investing in Talent for Future Readiness. During the downturn, we are heavily investing on People Development and Future Capabilities toward this end we have put in place a robust Talent Management and Leadership development intervention.

Using the Alicon Leadership Competencies we have recalibrated and expanded the Talent Pool for Critical Roles and enhanced succession coverage.

Leveraging technological developments like AI, AVR and Blockchain we are harnessing the technology and people potential power to realize our Vision. By this process we are ready to face the upswing.

Overall, we believe, the steady improvement in the results in Q2 over Q1 should continue and the order wins we have announced provide visibility for further scale up from the next financial year. We are confident of our growth prospects and the value creation potential for our stakeholders.

On that note, I would like now to hand it over to Vimal Gupta to run you through the key financial highlights for the quarter ended September 30th, 2019.

Vimal Gupta: Thank you, Mr. Sikand. Good afternoon everyone. I will take you through the key financial highlights for the period under review and we will then open the forum for your questions and suggestions.

Due to the ongoing macro-economic pressures and auto industry dynamics prevailing over the last 6-8 months, it would be more appropriate to benchmark our revenues against the immediately preceding quarter. So in comparison to the immediately preceding quarter, Revenues from operations were stable at Rs. 266.2 Croress in Q2 FY20. The performance was stable, both in the domestic and export segments. On to the segmental front, the auto division contributed to 92% of the total revenues for Q2 FY20 and revenues from the Non-Auto Division stood at 8%.

On a YoY basis, revenues de-grew by 13%. This was due to the varied operating circumstances last year compared to the present quarter. That said, our numbers of last year indicate the watermark of revenue and absolute profits that we can rapidly reclaim once the demand environment rebounds.

EBITDA for Q2 FY20 stood at Rs. 35.35 Crores, lower by 7% YoY. However, on a sequential quarter basis, when compared to Q1 FY20, EBITDA grew by 27%.

During the quarter, EBITDA margins improved 85 bps on a YoY basis to 13.2% due to the cost control measures and better operating efficiencies. We focused on improving manufacturing throughput, reworking production batches into more optimum sizes, repairing and reusing machine tools for more batches of production apart from addressing other costs and overheads. This has resulted in an increase in the EBITDA margins by 275 bps on a sequential quarter basis. There was some more inventory rationalization in Q2 and we expect this to stabilize by end of Q3.

Profit after Tax for Q2FY20 stood at Rs. 9.36 Crores as against Rs. 13.81 Crores in Q2 FY19. Compared to Q1 FY20, PAT grew by 84% on a sequential quarter basis. PAT margins stood at 3.5%

From our balance sheet perspective, as on September 30, 2019, our cash and cash equivalents stood stable at Rs. 9.67 Crores. Working capital cycle remained healthy during the period.

On the operational front, we added 3 new customers during the quarter. We remain focused on leveraging our competencies and are confident of the value we bring to customers allowing us to strengthen our relationships across various cycles. We continue to see improved enquiries and leads across markets and industries. The recent order wins announced by us clearly demonstrate that we are able to compete on a global scale.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant: Congratulations for pretty good set of numbers compared to what has been expected. I just had a few questions. One is obviously related to your margins. So, on the margin front, in this particular quarter we have done well and one of the reasons is basically the other cost as a percentage of sales have come down. So, can you shed some light on this? What are the activities which went into it and are there any one-offs present in this particular quarter?

Vimal Gupta: Whatever cost control measures that we have taken in Q2 will definitely continue in the future and especially like the energy costs. So, we have done many kaizens to reduce our costs. There were some changes in the shifts of production, so then we get the good efficiency with lower costs of energy, then some outsourcing cost, consumable cost, many things we have done our Kaizen and cost reduction and that has given good margins and improvement in debt and on the admin side also, we have taken many actions to reduce the cost. So, that one time corrections we have taken and that will continue in future also.

Ankit Merchant: So, is this a good level of margins we should expect going ahead to continue?

Vimal Gupta: Definitely, you have seen the impact in Q2, so definitely we can see those in Q3 and coming quarters.

Ankit Merchant: My next question is related to the total debt which we have right now and the interest cost also has gone up in this particular quarter, any specific reason for that?

Vimal Gupta: So, mainly debt level is almost the same.There was a holiday on the end of the quarter as well as due to that, the realization of fund has come later in the first week of the month October and that is a very small amount of Rs. 14-15 Crores. Otherwise, we are more focusing on the realization from the customers and focused on reducing the debtor side as well So, in the coming quarters you will see reduction in this cost also. Apart from this, we have done one reclassification of cost related with rent expenditure in the Interest costs. There was earlier cost of rent that we are paying to another company which is converted to lease based on the leased accounting change. That cost approximately is of Rs. 50 lacs so that impact is there in the interest cost. That is a one-time correction in this quarter.

Ankit Merchant: On the volume front, in FY19, we did a total volume of close to 42,000 MTPA. So, what is the guidance and how much has been for the first half right now?

Rajeev Sikand: Our tonnage keeps on changing based on whether two-wheelers or four wheelers we are selling. The real prospect which we are working upon is right now the market is as you know, even a global company tells you to ship off the next week and then on the day even when you ship, he will ask to hold your stock. So, right now I think this is a new normal for the current time and one has to just make sure the costs are incurred. At the same time, keep on going to your global customers, moving out into the e-mobility front. So, what we have done is we have focused teams working on four of our business slots and one is what we call the structural parts or technology-agnostic parts. These structural parts are required whether it is EV or ICE. So, that is another area where we have developed our capability besides, ICE and EV parts and the non-auto is also something, which we put in front. So, all these will continue and hopefully, we can share some more positive news as we go along and as we are going into BS-VI, this change itself is a big change for the company because lot of technology upgradation is taking place simultaneously. So, the BS-VI is a new level of manufacturing in this country, which probably has got little bit down because of the market condition, but it is like you reach the new norm, new height in the manufacturing of such global standard.

Ankit Merchant: Sure, but any guidance on the volume?

Vimal Gupta: At this moment, it will be little difficult to give the guidance for this year and if you know that there is the uncertainty in the auto market at this moment, but we feel that in Q4 little bit we are hoping some better volumes because due to change over from BS-IV to BS-VI.

Ankit Merchant: So, no lines have started for BS-VI production?

Rajeev Sikand: Already started.

Rajeev Sikand: One more impact will come - The BS-IV to BS-VI, there will be also the complete stocks at the customer end will come to zero. So, typically this would have not happened. This is also additional opportunity in this scenario where the stock of the customer at the customer end, all customers are working in towards it to make their stocks zero and then buy the new BS-VI parts or keep them separately. So, this change is happening.

Ankit Merchant: What has been the mix from two-wheeler, passenger vehicles and CV and even from EV in the first half?

Rajeev Sikand: So, two-wheeler continues to be, on tonnage wise, the majority of the business in this quarter, so do the passenger vehicles. There is virtually no big change in the last 2 quarters.

Ankit Merchant: But can you share some percentage of revenue coming from two wheelers and PV?

Rajeev Sikand: Two wheeler actually was estimated 45% and PV is 21% and CV is 21% and this non-auto 9%.

Ankit Merchant: I believe you also supply to Ather and Ather discontinued one of the models which was the lower end model. So, did we see any volume loss over there? And do we have any tie-up with Bajaj's new EV or in fact even with TVS who are supposed to launch?

Vimal Gupta: In case of Ather, they have just discontinued a basic model, but their plan has not changed. So, whatever figures they have shared with us for the position, they are taking intake of the parts like that.

Ankit Merchant: And any progress with Bajaj on their EV?

Vimal Gupta: Bajaj EV, right now they are developing with the internal sources. So, that will come in the future.

Rajeev Sikand: However, we did win a big order in this quarter from Bajaj for their Pantnagar facilities from our Delhi plant, so we did win a big part of theirs. It was a transfer of share of business from another supplier to us.

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

Keyur Shah: Sir, what would be the volume growth and the volumes of first half of FY20 versus first half of FY19 and if you could give how much did the domestic market decline and what was the export growth this year?

Vimal Gupta: The volume is almost at the same level; it is down as you can see in the revenues.

Keyur Shah: And how much is the volume sir?

Vimal Gupta: It is different volume for each product.

Keyur Shah: We want the combined volumes. So, it stood at about 42,000 tonnes last year, how much you would have done in first half?

Vimal Gupta: We generally are not focused on the tonnage; we are more focused on the value additions and value related growth .

Keyur Shah: So, your volume decline would be in line with your revenue decline that is one comment you have right?

Vimal Gupta: Yes.

Keyur Shah: How much did domestic market decline and how much did export market grow or decline if you could give in the H1?

Vimal Gupta: Domestic is down by around 9% and the export is 21% that we have explained in our Q1 discussion there we have made some corrections in the stock with the customers.

Rajeev Sikand: As we mentioned, we changed the norm with all our customers globally. So, our stock holding position and our shipment is, so that is why I had mentioned in my statement that some impacts of that, 99% is finished, some little is there in Q3, but from hereon you will see a different scenario on the export front, but our shipment from our warehouses to the customers is actually in the first half is more only, by 2% or 3% over the previous year.

Keyur Shah: And have we started supplying the BS-VI material in PV, in two-wheelers now?

Rajeev Sikand: Yes, some of them have started going for their vehicle approvals and small lots, not big lots.

Keyur Shah: In your opinion, when would you get bigger or regular supplies of BS-VI, should it go to December or?

Rajeev Sikand: From November onwards

Keyur Shah: So, larger pickup should be after December?

Rajeev Sikand: Yes to a large extent.

Keyur Shah: And these two orders that we have got which you mentioned initially JLR and Samsung Electric, what would be the size of these businesses or any indication if you want to share and when do they start for you in terms of supply?

Rajeev Sikand: We have actually put out a press note on the size of the business yesterday and not only two, they are four of them.

Keyur Shah: If you could give ballpark, how much business these four orders can bring through?

Vimal Gupta: Four orders if we split percentage wise, total business is Rs. 810 Crores and if we split in the percentage that is 30% that three customers are contributing and 10% of one.

Keyur Shah: And when do we start supplying?

Vimal Gupta: March 2020 we will start and 3 different scenarios of March 2020 through June 2021. So, let us hope we will start.

Keyur Shah: This is annual 810 or it is cumulative order?

Vimal Gupta: Cumulative.

Rajeev Sikand: This is a package in the bucket that we have to fulfill in 5 years.

Keyur Shah: Beginning March 2020 when the supply comes?

Vimal Gupta: Yes.

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

Bharat Gianani: My first question is that the order wins that you shared of Rs. 810 Crores that will not be a replacement order, it is for a new platform and a new client or how should one read at the order intake that you have just won. That would be my first question.

Vimal Gupta: These orders are for new platforms. Jaguar Land Rover is a new customer and rest are the existing customers. These are the new product lines. So, there is no replacement business.

Bharat Gianani: So, all of that would be incremental into our topline?

Vimal Gupta: Yes.

Bharat Gianani: What is the capex plan for this year and are we increasing any capex in the light of the order wins that we have just shared and guidance on capex for this year and next year would be helpful.

Sandip Patil: On the capex plan, this industry of our kind, we need a continuous investment based on the order book and the new orders that we get from the customers. As Mr. Sikand has already explained that for the BS-VI, we are getting the new orders because the customers are shifting some products from the existing suppliers to Alicon, so for that purpose or for the export orders, we will require investment, so in this year, we are expecting approximately Rs. 50 to 60 Crores investment will come up for the full year that includes the maintenance capex.

Bharat Gianani: And any indication for the next year if you can?

Sandip Patil: About our loans or this debt levels, so if you see debt, we have already done approximately in the first 6 months of Rs. 25 Crores capex and that all funded from internal accrual.

Bharat Gianani: I was asking more from the next year capex if you have finalized any plans for that?

Sandip Patil: No, at this moment, we have not finalized because for the new orders that we have received, then we will require not more than Rs. 40 to 50 Crores capex for that also, so it depends on the order book that it is a continuous process actually, so when we will receive further orders, then based on that we will revise the plan for capex.

Bharat Gianani: And sir, lastly my question is that the tax rate for this year, it seems that we have not migrated to the new corporate tax structure because in this quarter also, our tax rate is close to 30%, so I just wanted to understand whether we are choosing not to move to the new regime? What I was trying to understand is that what was the effective tax rate that we should work out for this financial year?

Vimal Gupta: Actually, we have not yet finalized to migrate. Definitely that some benefits are there, so on the other side we have to lose another benefit. If you see from the full rate, we are on the lower side little bit, so we are in the part of assessment and may be because we have time to take this option, so at this quarter we have decided not to go for that. Maybe we will take a call at the end of Q3 or Q4.

Bharat Gianani: So, what should one pencil in for the tax rate for this financial year FY20, any guidance?

Vimal Gupta: No, that if you go for the new tax rate, definitely it will be approximately 25.2%.

Moderator: Thank you. We take the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, one thing that I wanted to understand was if I look at the quarterly numbers over the last 2 years, the gross margins have fluctuated a lot. I understand it is the nature of the business itself, but can you explain a little bit how to read these numbers, so if I look at Q1 FY18, we were at 52%, then we hit a high of 55.3% in Q4FY18 and then last year we were roughly averaging around 49.5 to 50% and then we have seen a dip to 47.5. So as the activity level in the industry is falling down, is it natural for the gross margins to compress for some reason, may be raw material pass-throughs are not happening, may be people are asking for better prices, how do I understand this gross margin fluctuation independent of the way your product mixes are changing? So, that is my first question. Second question sir, you have done a remarkable job on the fixed cost side, but again there, how sustainable is it? You said that some of the things that you have done at the stock flow level, you will be obviously continuing that but again if I look at the numbers, Q4 2018 and Q3 2018, your employee cost were around 41 to 42 Crores per quarter and those have fallen if I look at the last 2 quarters, 37 and 35, so is this sustainable especially when the demand comes back? And again on the other expenses side, again you have fallen quite a bit, so how much of that is sustainable given that sooner or later activity levels will pick up? And my third question sir is, on the capex number, 2 to 3 quarters back, when things were relatively fine, you had said that to meet your Rs. 2000 Crores revenue number, you needed around Rs. 500 Crores of additional capex and out of that you have done more than 50% and around Rs. 250 to 300 Crores was remaining. My guess is that you last year did around Rs. 60 to 70 Crores and then you have subsequently delayed your Greenfield expansion, so given all these moving parts, can you give a long-term guidance on the capex side, it is take of probably 5-year view, 5 years is too long, probably we will take a 3-year view, where does the capex guidance lie and finally one last small question, you mentioned that CVs are 20% of your revenues, can you describe a bit what kind of components you make for the CV industry and for what tonnage vehicles? Thank you sir.

Rajeev Sikand: So, I go one by one. First question was that the margins, right. So, there are two major factors that affect this margin. One is the sales mix, because we have variety of parts where we have margin of 30% and somewhere we have margin of 70%, so such kind of parts we are having, so when it moves because now like parts, where we were having the more business in the previous year and margins were higher, so our margins were on the material side cost, that cost was on the lower side. Then you can see that when you are talking about 49% or 50% that range and somewhere it has gone to 52 to 53% also when our two-wheeler business or those business as a percentage to when we compare with the other part where we are having higher margin. Then that goes up that cost, so this is one part and other side, we see that when the material cost is going down in this scenario, aluminum you have seen that it is approximately 15 to 18% has gone down in the last 6 to 9 months, so our material what we have raised, it is 100% pass-through to the customers, but it is automatically adjusted in the fixed price. So, when you see that as a percentage to sales, automatically the percentage goes up of material cost. So, these are the two major factors because there is no impact on our margins and we are more focused to how to improve it.

Agastya Dave: So, you have not seen any gross margin erosion at the product level?

Vimal Gupta: Yes. I can come to the fixed cost part what you were asking, when we go to the manpower cost, so there are two, you know the concept of fixed cost and the variable cost side. So, we have some fixed manpower, there I have to pay it and somewhere we have contract manpower, so somewhere we can play around, so when the orders are going down, we can reduce that cost but up to certain level, but there are two ways of reducing the manpower cost, one is that we eliminate the people based on the volumes. Second is, we eliminate the positions and processes in our production system. When we eliminate the processes and positions in the system then that will give a permanent cost reduction. Then this year more focus on that side but definitely when the sales will go up, so I cannot say that my manpower cost side will not go up, but as a percentage to sale it will not go in the same ratio. The same way the other fixed cost that same way that we are reducing the cost by improving the processes and efficiency of the production system, so that is the main reason of reducing those cost.

Agastya Dave: Alright.

Vimal Gupta: Third question was related to commercial vehicles, majorly we are supplying parts like engine covers, so those parts are if we see the weight-wise these are parts from 5 kg to 20 kg.

Agastya Dave: Sir I was wondering which kind of trucks, so the light trucks or the heavy trucks?

Vimal Gupta: These are the heavy trucks. With 8 litre to 12 liters engine.

Agastya Dave: You have talked a lot about inventory correction that you have done at your end and as well as at the customer's end, so can you quantify it a bit and will we see a restocking cycle also, is it just that you are doing this because there is a slowdown and hence again there will be a restocking cycle also or this is a permanently lower level of inventory and this is just a one-off adjustment?

Rajeev Sikand: , I think it is the very interesting question, I see this slowdown has the opportunity. I don't see this slowdown as something which one has to look at it only in negative, I think sometimes these sort of things which come in, help you to tighten up your belt because when you are in a growth phase you are always talking about deadlines, new products, new timelines and things like that and lot of these activities at times do get left behind. So, in principal this slowdown is the opportunity which we have used, and we have continued to work on this. I think on the HR side, we have a great mentor who is working with us for last 1-1/2 years and same way on the finance side, we have another mentor who is working with us plus our partner, Enkei and of course our customers. So, we have a, what I call is the great opportunity which we must leverage to bring better profitability in future when the business is back. Some amount of cost will come down structurally, some amount will remain. As the business will come back, there will be some cost which will come back but most 80% of cost which we have brought down will be permanent in nature, 70 to 80%.

Agastya Dave: Sir, one question on capex - just Rs. 250 Crores-300 Crores was left, how much of that is still remaining?

Vimal Gupta: That we already explained about the capex side. We have done in the last year and this year explained, so to achieve this target of Rs. 2000 Crores, whatever the capex we have discussed in our earlier con-call, so we have to continue with that because little bit there will be a delay in this to achieve that target, but we will require those capex.

Agastya Dave: I meant the Greenfield project sir, that has been deferred?

Vimal Gupta: Greenfield project, so I don't think it will be required immediately because now we have got this opportunity, but as now just Mr. Sikand has explained, so we are tightening our belt to be more focused on the improvement on the stock flow, so we are trying most that how to delay that project, so we can generate more revenues from the existing facilities.

Moderator: Thank you. Next question is from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.

Mahesh Bendre: What is the current utilization in our factories now?

Rajeev Sikand: Some plant is as low as 30% where the CVs are produced, so within plants we have sub-plants, the two-wheelers continue with the higher levels, some export parts continue with the higher levels, but it is different for different plants, but overall average if you will say is around 40 to 50%, not more than that.

Mahesh Bendre: This Rs. 860 Crores orders, which probably will come from FY22, so even if I divide, it is roughly Rs. 160 Crores of revenue per year incrementally, so it will be a huge jump to our existing base, it will add around 15% without any other growth, so are we prepared for this kind of supply of this equipment? The factories have been placed for this kind of revenue growth?

Rajeev Sikand: As I mentioned, this downtime is very good for us. Even when the market was going up, we took a decision to postpone our new Greenfield capex. We did not take the decision to postpone our capex when market went down. We took a decision to postpone our capex when it was going up, so same way our decision is to optimize to correct lot of our things which you can correct in this kind of times and utilize the power of people and everybody on the stock floor has a huge amount of knowledge and how to utilize that knowledge to create new capacities is an opportunity which we have seen, so that is how we are going to play this. In our business, what we have done is our Backend that is the key machine is unilateral to our business, whether it is EV, non-EV, it doesn't matter, we have already made the Backend same. Only some unique machines may be required in all of our businesses, whether it is for two-wheeler or four-wheeler or EV or non-EV, the rest of our business is already made in that kind of a way that our main structure does not change.

Mahesh Bendre: On a broader level, you have seen the cycles many times in the past in terms of demand in auto sector, now when do you think actually recovery can happen in the overall auto industry as a whole?

Rajeev Sikand: I personally feel this is one year down the line.

Mahesh Bendre: So, June, next year possibly we will see a recovery?

Rajeev Sikand: No, one year down the line is October, the Diwali season next year. I tell the team that prepare for the worst and hope for the best because the upside is covered and downside if you cover then we are in a good shape as we go along.

Moderator: Thank you. Next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir, my question is regarding, if you can quantify the inventory rationalization amount because last quarter what we have seen the amount was around 8 to 9 Crores, right?

Vimal Gupta: I think it is around Rs. 20 Crores.

Dhiral Shah: So, this quarter it was around Rs. 11 to 12 Crores, right?

Vimal Gupta: Around that.

Dhiral Shah: And sir, you talked about that you have got order from Bajaj, so if you can quantify that order sir?

Vimal Gupta: For Bajaj, quantifying it is around 50,000 cylinder heads.

Dhiral Shah: This is for which model?

Rajeev Sikand: Three models, which are produced in Pantnagar, we were not in Pantnagar, so that is what has come to our plant in Delhi.

Dhiral Shah: When you are talking about international market that started maturing for mass EV production, but when I look at our EV revenue, it is just 1%, why is it so?

Rajeev Sikand: If you take Tesla out and China out, there is hardly any start of the EV, so EV is going to play and we made a bid in Tesla, our price was very good, luckily we didn't get that business in the hindsight because subsequently they ask all the vendors to reduce the prices by another 20%, but EV generally continues. It is a technology play, so if you are able to display your soundness in producing those castings, whether today it is for Jaguar Land Rover or Samsung, then tomorrow this can be applied to any. It is traditionally called chassis so we have been able to produce chassis of the car in the olden terms and yet using the electric car technology.

Dhiral Shah: So, with other players, you are in a starting phase, right?

Rajeev Sikand: Right.

Dhiral Shah: When you are talking about EV, the quantum will go up by let us say from 5 kg to almost 18 to 19 kg, so how this is going to change in BS-VI sir?

Rajeev Sikand: See, EV and BS-VI are completely different. The BS-VI models are going to reduce in rate because all idea of BS-VI model is more environment friendly, so light-weighting is the key there.

Dhiral Shah: What would be the change in content in BS-VI and its impact on overall sales?

Rajeev Sikand: No, in our scenario it is very clear. There may be a material less but our value additions will be because it is more complex, it has more processes, so that is why we look at mostly on our value addition and that will move up only.

Dhiral Shah: So, content will come down but then value addition would increase?

Rajeev Sikand: Yes.

Dhiral Shah: And you talked about debt-reduction plan, so how much debt you are expecting to reduce in FY20?

Vimal Gupta: So, let us see that. At least we are targeting 8 to 10% at least production in that.

Dhiral Shah: In debt reduction?

Vimal Gupta: Yes.

Dhiral Shah: Last year, you had guided for capex of Rs. 25 Crores, but now you are guiding for Rs 50 to 60 Crores and you have done Rs. 25 Crores in H1, so if you can bifurcate this capex, so for what you are doing?

Vimal Gupta: So, that time actually there was no anticipation of the new orders coming, so that I explained just now that based on the order, we have received like the many orders based on the requirement of BS-VI, such as Bajaj and Honda also very big order, so we need to invest the money for that purpose.

Dhiral Shah: It is for BS-VI requirement?

Vimal Gupta: Yes.

Dhiral Shah: When I see the overall revenue de-growth, this is although because of auto slowdown, but for the full year basis, are we again going to see de-growth or can we see flat growth on Y-o-Y basis?

Vimal Gupta: That I have explained to you, it is very difficult to predict where the market will move this time and whether we are going to de-grow or we will report a flat growth. Let us see how the market moves.

Dhiral Shah: But margin would remain at around 13%, right because of all these cost reduction?

Vimal Gupta: Yes, we are focused on that.

Rajeev Sikand: This year is a change year. One of the things which nobody has factored is the complete reduction in inventory at the OEMs of BS-IV. It is huge, it is very sizable at all ends, at the distribution points and at all points, so this inventory itself will play and then the BS-VI, so this does happen, this is not a BS-VI to BS-IV or BS-IV to BS-VI, it is not a journey of every year. This is one-off cases where the one has to build in that.

Dhiral Shah: Lastly on the defense side, we have received order of 2,900 wheels, so have you executed that?

Rajeev Sikand: We are in the process of execution.

Dhiral Shah: How much we have executed sir?

Rajeev Sikand: Around 1,400 wheels we have executed.

Dhiral Shah: There was an RFQ for ventilator fans, so are we getting any traction over that?

Rajeev Sikand: Yes, we are in fact in the final place for that is why I can’t say until we have the order in hand.

Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.

Rohit Balakrishnan: On the balance sheet side, so if you look at last 2 to 3 years also and even now, the overall working capital has touched a bit, so I understand that this year specifically has been a bit tight because of the slowdown, etc., but just at a normalized situation, how do you look at the working capital for your company given we are also now exporting and that will be the only increase going forward, so if you can just explain that part?

Vimal Gupta: We are more focused on this to further improve working capital because in the last quarter also and just now we have explained that how we are making the corrections and you can also see in the balance sheet there is a reduction in the inventories. We are focused on the inventory side as well. As I explained earlier, focused on the reduction in the debtors side, the receivables and one correction we have made through the inventories as well as now asking for the customers also to improve their payment cycle and I hope that by end of this year, we will be able to improve this, so by improving the debt we will be able to improve our working capital cycle.

Rohit Balakrishnan: When you say improve, it used to be around Rs. 60 to 70 =debtor days, would we be able to get to that level? Just want to understand could the business mix have also changed in the last few years, the exports becoming big, so just want to get your sense?

Vimal Gupta: We cannot go back to those because we have the export business now. Earlier, that is 4 years back - we did not have that situation because the receivable cycle for the exports is long. So, we are having discussion with our customers on the export side so as to reduce the consignment stocks at their level as well as may be they can further improve the payment cycle.

Rohit Balakrishnan: Mr. Sikand you have been talking about this BS-VI as an opportunity and also you have alluded to the fact that there would be significant reduction from BS-IV because those models will not be there going ahead, so just from if you can may be talk a bit more about in terms of not just for this year, may be next couple of years, do we expect that the parts that we lose, we will more than recover for that in the BS-VI? Is that a fair assessment?

Rajeev Sikand: No, I think I was alluding to the opportunity which has come with this downtime and this second opportunity of BS-VI is the technology play which it brings to all the suppliers to make this happen, which includes us, so not everybody gets the opportunity to play BS-VI completely, so this is the opportunity which we have got and when BS-VI comes fully in play, we are the source which continues to supply and we are the source which the customer is developing and I think within BS-VI, I am not able to declare just now, we may get some new opportunities also which our competition was doing within India.

Rohit Balakrishnan: So, let us say if you were doing X parts under BS-IV, can we do more than X what we were doing in BS-VI, is that possible, is that what you are looking at?

Rajeev Sikand: We are looking at that if you are a lead developer, then you get it first, go ahead, so that is what we are aiming at, remain in the pivot for the customers for developing these parts, getting them often running and within that how can we create, there are sub parts which come in and often we take these sub parts and maintain our leadership.

Rohit Balakrishnan: What I was asking was that whatever our vehicle-mix is today, which I believe is more geared towards two-wheeler, do you see that significantly changing in the next 2 to 3 years with whatever new orders as you are winning and all the opportunities that you are seeing?

Rajeev Sikand: We have already factored that in our plan, two-wheeler will come down to around 25% by year 25.

Rohit Balakrishnan: By 25, you are saying two-wheeler will be down from?

Vimal Gupta: Whatever the growth we are expecting that will happen till 25, that will happen in the four-wheeler side, not in the two-wheeler side.

Rajeev Sikand: Not that two-wheeler will go out but it will also grow but the growth rate will be lower than the growth rate of the other parts.

Moderator: Thank you. We take the next question from the line of M. S. Arun from Capital Market. Please go ahead.

M. S. Arun: What is the impact of the inventory reduction in H1 margin? And you told that there is the impact of product mix change also? How much is on account of inventory reduction? How much is on account of product mix change?

Vimal Gupta: I think we have not worked out that. Maybe we can discuss this offline.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Rajeev Sikand for his closing comments. Over to you sir.

Rajeev Sikand: Thank you everyone for your time. We are excited about the opportunity ahead of us and truly believe we are very well placed to capitalize on shifts in the industry landscape. Before we close, I would like to wish you all a very happy Diwali and a prosperous New Year. I hope we have been able to answer all your questions. Should you need any further clarifications or would you like to know more about the growth, please feel free to contact us or CDR India. Thank you once again for taking the time to join us on this call.

Vimal Gupta: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Alicon Castalloy that concludes this conference. Thank you all for joining us. You may disconnect your lines now.

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