



## Alicon Castalloy Limited

### Q2-FY22 Earnings Conference Call Transcript November 12, 2021

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY22 earnings conference domain of Alicon Castalloy Limited. As a reminder, all participants' 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 the operator by pressing "\*" and then "0" on your touch-tone 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:** Good day everyone and thank you for joining us on Alicon Castalloy Limited's Q2 FY22 earnings call. We have with us on the call today Mr. Rajeev Sikand – Group CEO, Mr. Vimal Gupta – Group CFO, Mr. Shekhar Dravid -COO, Mr. Andreas Heim – Managing Director of Illichmann Castalloy, and Mr. Rajiv Gupta – Head of Domestic Business of Alicon Castalloy Limited.

We will begin with Mr. Vimal Gupta who will cover the financial performance for the quarter following which Mr. Dravid will walk us through the operating highlights. We will then have Mr. Andreas Heim and Mr. Rajiv Gupta sharing a more granular view of initiatives towards the global and domestic markets respectively. This will be followed by Mr. Rajeev Sikand who will share a brief summary of the quarter gone by and the outlook. That will be followed by 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 presentation shared with all of you earlier. I would now like to hand over the floor to Mr. Vimal Gupta for his opening remarks. Over to you, sir.

**Vimal Gupta:** Good morning to all our investors and best wishes for the festive season. I hope that all of you and your near and dear ones are safe and well. Thank you for taking the time out to join our Earnings Call.

Q2 began on a challenging note as India was emerging from the devastating effect of the second wave. However, we witnessed a partial recovery in demand as many of our customers had ramped up their production by the end of the prior quarter and thus commenced Q2 with much improved utilization levels after the disruption in Q1. In addition, there was also an element of higher pricing of alloy during the period. The combination of slight increase in volumes and the higher prices of alloy has enabled us to report a consolidated revenue of Rs. 268.7 crore during the quarter, higher by 31% year-on-year and 27% on quarter-on-quarter basis.

However, I would like to highlight here that while our revenues are elevated by repricing, we operate with a pass-through model which minimizes our exposure to metal risk, albeit at a lag. So, on a competitive basis, our revenue performance in Q2 is evenly driven by both volume growth as well as repricing growth. However, for ease of understanding, if I were to exclude the impact of re-pricing on a like-to-like basis, our revenues in the quarter have grown roughly around 23%.

We understand from our customers that demand, especially in the 2W segment has been impacted by higher fuel prices and increase in insurance as well as uncertainty given the emergence of new and viable options for electric mobility. The incentives being offered by the government have also improved the economics of electric two-wheelers. Hence, there is a significant element of deferred purchasing as customers are evaluating the EV vs ICE decision. In the Passenger Vehicle space, volume growth would have been even better but for the shortage of semiconductors which impacted the pace of manufacturing and vehicle dispatches of OEMs. The impact has been uneven with some customers impacted more severely than others. Further, in the international business, there has also been some impact in Europe from the summer holiday season.

For the quarter, exports including overseas revenues contributed to 25% of the total revenue while domestic contribution was 75%. Across verticals, the Auto Division contributed to 94% of the total revenue in Q2 FY22 and Non-auto Division was at 6%.

Even as the human cost of the second wave ebbed by the end of the previous quarter, the impact on the supply chain has continued to linger. As you are aware, industries worldwide including the Auto and Auto Ancillary space are witnessing bottlenecks in the supply chain and inflationary trend in input prices. As a result, during the quarter, we experienced a challenging and volatile input price environment and have witnessed prices of aluminum and related alloys reach new heights. In addition, logistical problems such as unavailability of shipping containers and

increased freight costs have compounded the impact of the price increase. We have seen shipping costs increase from 2 to 4 times in the last few months itself, which further impacted overall expenses in Q2.

In order to efficiently mitigate these extraordinary cost pressures, we are working alongside our customers to undertake price hikes and pass through these costs. Our pricing with our customers enables a pass-through and we are actively engaging with them to shorten the lag. This will enable more rapid transmission of input prices thereby protecting our working capital and cash flow position to a considerable extent.

As the input prices are significantly higher, there is a value increase in both top line and material cost. The gross margin was 47% in Q2 FY22. As can be seen, the sharp increase in input prices has resulted in margin compression which is largely optical due to the higher base effect. The EBITDA for the quarter was Rs. 25.3 crore. Here too, the denominator which is revenue for the quarter is higher on account of increased material prices which are passed through. As a result, the EBITDA margin during the quarter is 9.4% and the compression is largely optical due to the sharp rise in input prices. In a normalized raw material environment, we anticipate EBITDA margin to bounce back to stable range of 13% to 15% going forward. Profit after tax during the quarter stood at Rs. 3 crore.

On the balance sheet front, our net debt as on 30th September 2021 was at Rs. 235.5 crore with a net debt to equity ratio of 0.55x. The conclusion of equity raised through QIP and preferential issue has helped to enhance our liquidity and reduce our debt. During the quarter, we have reported steady cash flows from operations.

Given the uncertainty due to the further waves of pandemic, shortage of semiconductor, and disruption in supply chain, we have undertaken a well thought out decision to alter our CAPEX spends for the year. While we have envisaged around Rs. 90 crore at the start of the fiscal, we will be closing the fiscal year around Rs. 55 to 60 crore and the balance will be deferred to the next year to invest for growth as we anticipate a stronger recovery in FY23. Overall, we will continue to follow a disciplined capital allocation framework.

Even as we have deferred our CAPEX to align ourselves with our customers' schedule, our stronger balance sheet and more robust cash position place us in a very strong position to ramp up production to service the new order wins. We have adequate liquidity to build up our working capital and also investment in machinery and tool production lines. Our plants are now operating at 60% to 65% utilization

level. With the improved visibility due to recent win orders, we anticipate that utilization will reach 70% to 75% in the 2nd half of the year.

To summarize, we have reported a resilient performance during the quarter. With the pandemic impact largely behind us and a large backlog of orders for the Auto industry, we anticipate continued scale up of production by the entire Auto and Ancillary sector. Add to that the rapid increase in traction of electric mobility as newer models are announced and there is a faster adoption.

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

**Shekhar Dravid:**

Greetings to all. I trust all of you are well and staying safe. The domestic auto segment during the quarter saw mixed signals of recovery. While there was an improvement over Q1 after the second wave, demand and booking across the vehicle segment and especially two-wheelers have been sluggish. This is largely due to increase in fuel cost as well as the overall inflation pressure which seems to be impacting buying power. This has also deferred decision making in the two-wheeler segment as customers evaluate ICE versus electric decision more carefully. Further, supply side issues due to chip shortage, container costs, and the volatile input prices weighed down the overall volumes in the auto space. Sales for PVs in the quarter were hampered by supply-chain constraints leading to a high waiting period for some of the high-selling models. However, new vehicle registrations in the PV space stood higher in September when compared to the pre-pandemic period. The CV segment also saw a sequential improvement in demand with increased freight availability and the resumption of construction activities. Agriculture and commercial demand was also largely stable in an otherwise seasonally weak period. Overall, while consumption patterns were encouraging, weak retails owing to the supply side constraints in addition to the higher fuel prices restricted the pace of recovery in the quarter.

On the international front, most of the key export geography in the US and Europe reported healthy auto sales led by steady demand and stable currency in the key markets.

Against this backdrop, we have reported a solid performance during the quarter. To reflect upon key order wins, we added 17 parts from 8 customers during the quarter. Of which, we have added 4 parts from the domestic customers like Honda Motorcycles, Piaggio, and Dana Corporation and 13 parts from export customers like

JLR, MAHLE, Renault, Dana Corporation, and Tata AutoComp and a new logo addition of Scania in the EV division.

In the ICE segment, we have added 6 parts. We got a breakthrough order win from Renault in France. This opens more avenues for growth for us in a new European market. Additionally, we also received an opportunity from a critical CAC tanks as a resourcing project for another European location.

In our structural segment, we added new parts from JLR UK and entered into a new segment in two-wheelers with Piaggio. In other EV segment, we have added 9 parts. We got order wins from Dana for an existing location as well as for the new location - Mexico. With existing customer MAHLE, we received a promising order win for EV parts from Spain, another new market for us. We are happy to share that we added a new logo Scania in the quarter with 5 parts for the European region.

Let me now share the highlights of our performance across each of our 5 key strategic growth pillars. The first being our Auto business, this segment, as just discussed, was impacted on account of supply issues. However, it is witnessing a good bounce back in demand and recovery on a month-over-month basis. We expect the chip shortage issues to resolve in the coming quarter with the resumption of chip manufacturing factories in Malaysia. Enquiry levels across the domestic and export markets continue to remain healthy. We are also seeing improving order wins from the OEMs that we work with which in turn bodes well for us.

On the industry front, the global automobile space is in the phase of transformation. Across the globe, there is a shift to quickly transit to cars with premium hi-tech features and towards electric mobility. In India, the pandemic has accelerated the development in the automotive industry. With consumers preferring personal transportation modes, it has fueled the number of first-time auto buyers across the country. As per the latest industry trend, most consumers are preferring hi-tech features for a car over an entry level. This is also facilitated by the attractive financial schemes available in the domestic market today. Both urban and rural demand is seeing healthy recovery and we are seeing a stronger traction in vehicle registrations in the country.

Coming now to the second of our growth pillars which is Electric Vehicle division. Globally, volumes of electric vehicles have been exponentially grown in recent times. A total of 2.65 million new EV registrations were reported in the 1st half of 2021, an increase of over 170% over 2020. In India too, this segment is fast picking up the speed. In September, EV sales for the first time ever crossed the 30,000 units mark

in India. These registrations are mainly driven by electric two-wheelers and the passenger side electric three-wheelers, which together accounts for more than 90% of the total registrations. We have seen established and new players announcing exciting launches during the quarter. The likes of Audi, Mercedes, Volkswagen, Mahindra & Mahindra, and Tata Motors have announced launches of range of e-passenger vehicles during the quarter while Honda Electric, Ather Energy, TVS Motor, Ola Electric continue to announce new launches in the two-wheeler space. Recently, Ola Electric made history by registering the highest ever sales in a day of its e-scooter in the Indian e-commerce space. There has also been a strong buildup in the activities toward EV infrastructure and Ecosystem creation. Hero Electric in partnering with Massive Mobility and has announced a plan to set up 10,000 EV charging stations by 2022, EVRE and Park+ have announced partnership for establishing another 10,000 EV charging stations across India over 2 years. Similarly, Tata Power is hoping to close this fiscal with 2,000 charging stations with an overall ambition of reaching 10,000 mark in 5 years. These are just some of the few developments to begin with. The Government is also announcing supportive regulations and policies to increase the adoption of green energy in the country. Last month, it announced the PLI scheme for the Automobile, Auto component, and drone industry with an outlay of Rs. 26,058 crore in order to accelerate EV manufacturing and localized advanced automotive technologies in India. The details of the PLI scheme have been recently notified and we are studying them to ascertain the benefits available. Our preliminary understanding is that we are well positioned to qualify for the incentives based on our scale, our track record, and the parts that we produce. We will inform all stakeholders of the progress in this regard at the appropriate time.

The scheme in addition to the already launched PLI for advanced chemistry cells which is of Rs. 181 billion and faster ramification of the manufacturing of electric vehicles, sales scheme of Rs. 100 billion to boost manufacturing of electric vehicles in India. Cumulative incentives being offered across the 3 schemes which will be amounting to Rs. 541 billion targeting both the demand and the supply side. The various initiatives by the government provide a clear direction that the policy makers remain focused on promoting new energy vehicles. The EV segment is at the cusp of rapid adoption in India, and we believe this will bring in solid growth opportunities for us going forward.

We are working with the OEMs as well as the tier-1 suppliers for scaling up our EV business. We are excited to share that we are actively engaging with Tata Motors who is the fast emerging as a leading PV supplier in the domestic market with over 1,000 units sold each of the last 3 months. Alicon has got an opportunity to work with

Tata Motors in EV sector through TACO who are developing and supplying the battery packs and motors for EV platform to Tata Motors. TACO is correctly sourcing components from China in a CKD mode, but due to FAME-4 regulations, they plan to transition to local suppliers before 31st of March 2022. Alicon has got the RFQ for more than 15 parts from TACO and we are in an advanced stage for getting nominated for these parts by December 2021.

We have also been working extensively with Dana Corporation on both domestic and international orders and the portfolio with Dana stands expanded to 48 parts. We are also engaging with ARRIVAL, a leading global EV company, which plans to set up a plant in Bengaluru in India. There is an RFQ of 40 components for which we are actively engaged. We are also happy to share that we are an exclusive supplier for Ather Energy in India. We are also engaged with Tork Motors which has seen the project being revived after a pause due to the pandemic. Our earlier order wins from Garrett, MAHLE, Eaton, Samsung (Danfos) have all gone into the mass production mode now. We continue to work alongside with our customers in EV space and believe there are massive opportunities here. With the industry dynamics constantly changing Alicon is one of the front-runners in the EV space to capitalize on these growth prospects. We have already built up a portfolio of over 65 parts catering to EV. Our earlier stated target was to bring the wallet share of EV business to 25% of the overall revenue by FY2025-26. However, given the order booking on hand and we are already on the track for 18% of revenue share from EV, we are now raising our target for EV business to 36% of the overall revenue by FY2025-26.

Now onto our third growth pillar, being technology-agnostic platforms wherein we focus towards building niche around existing and new products by leveraging our core competencies. This includes light weighting of the product in auto and EV space. We are getting increased enquiries from the OEMs both in the domestic and export markets and for the development of frames and the control arms like components. Our successful conclusion of order with JLR has opened many opportunities in this domain.

Our fourth growth pillar being a non-auto segment. Here, we are witnessing a healthy growth in demand across the sectors such as Defense, Aerospace, Agriculture, and Energy and we expect this momentum to strengthen in the quarters ahead. Currently, our orders in defense sector to supply the wheels for the battle tank is nearing completion. Backed by Alicon's efficiency and work quality, we are pleased to announce that we have been called for the tender for refurbishing of 129 battle tanks which corresponds to 3,870+ wheels and the tender will be closed by the end of December 2021.

The fifth growth pillar in our focus on increasing customer wallet share, I am happy to share that in the quarter, we have got improved business wins from repeat customers. Our long-term approach is towards building wallet share and positioning ourselves as a trusted supplier for our existing customer base.

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

**Andreas Heim:**

A warm welcome to all of you. I will briefly cover the developments on our international business.

This quarter Illichman Castalloy has enhanced its contribution to the Group's financial performance. In the quarter, we saw improvement in income from the markets of Europe and US led by higher demand, enquiries and leads. We have received new orders from KTM, Doppelmayr and Rotax. However, the chip shortage issues across the globe saw significant impact on international vehicle sales in the second quarter. The rise of the delta variant and pandemic breakouts in key chip sourcing markets of Malaysia and other Southeast Asia countries further amplified supply-side constraints. However, we are hopeful now that the situation is easing and we expect vehicle inventories to improve, in the second half of the fiscal. This is also reflected in our customer orders from Samsung Battery Housing in Q4 FY22 on which we recognized increase of the demands.

Aluminium jumped to the highest since July 2008 as a deepening power crisis squeezed supplies of the energy-intensive metal – additional costs are covered from our customers in order to keep our revenues. In addition, incremental pricing in terms of tooling preparations, mould services have further fueled revenue growth. Furthermore, we are performing well in our operations in terms of cost control and reduction, which is supporting us in our profitability growth as well.

In Q2 FY22, we added 13 new parts (9parts in EV) from 6 global customers such as JLR, Mahle, Dana Renault, Tata Autocomp and Scania. Out of those 6 customers we added Scania as a new logo. International business, including sales from Illichman, contributed to about 26% of our total revenues in Q2 FY22.

Currently, we are working on partnering with TBS in the US and entering untapped markets of South America. In addition, there are niche opportunities emerging in the Middle East, China and South Korea to significantly elevate the global footprint for the group.



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

**Rajiv Gupta:**

Good day everyone. demand across the domestic market has been on uptrend driven by increase in spending and consumption, especially post lockdowns, a shift towards new hi-tech vehicles, personal mobility, preference among other factors. That are initial signs of recovery in replacement demand as well which we believe will be more prolonged in the coming quarters. A stringent implementation of fitness tests on the older vehicles will further support the replacement cycle. While there is a demand in the space, the severe supply constraint has moderated the auto volumes in the quarter. Domestic tractor and two-wheeler volumes were impacted due to muted customer sentiments in the monsoon deficit states. Domestic passenger vehicles witnessed a steep fall, mainly on the account of chip shortages. However, domestic commercial vehicle volumes stood healthy aided by better freight availability and rates.

Coming to our performance, given the macroeconomic backdrop, Alicon was able to report steady sales in Q2 FY22. During the quarter, we added 17 new parts from 2 leading domestic customers and 6 export customers with 1 new logo addition. Overall, we are witnessing a good level of enquiries and bookings in the market. We have booked an average yearly sale of around Rs. 30 crore with project sale of around Rs. 130 crore over a period of 5 years in Q2. This year, till half yearly, we have had added 30 parts with 12 in EV segment with average yearly sales around Rs. 50 crore with project sale of around Rs. 240 crore over a period of 5 years. Our total order booking now stands at around Rs. 3,150 crore over a period of 5 years with a yearly average sale of around Rs. 625 crore. While there are supply side constraints in the short term, from the longer-run perspective, we are seeing a very exciting time in the domestic auto industry.

On this note, I would now request our group CEO, Mr. Rajeev Sikand to share his further perspectives.

**Rajeev Sikand:**

I welcome all our investors. Thank you for joining the call. I hope you and your family members are well and safe.

In the last 18 months of the pandemic, a lot of changes and disruptions have taken place across society, economics, and the businesses. During this extraordinary time, Alicon has sharpened its ability to adapt to the changing business environment while creating new opportunities. We have continued our journey to build a more resilient and a robust organization undertaking strategic initiatives to augment our efficiency,

build technical edge, and improve product offerings while also managing cost and infrastructure more effectively.

Even in the quarter gone by, although the demand scenario was encouraging, supply-related issues and raw material pressures significantly impacted volumes. However, on an optimistic note, our ongoing interactions with our partners indicate that raw material issues are beginning to ease, and with the continual retail enquiries and upcoming festive season, we remain positive that the volumes will see a steady uptick in the quarters ahead. In this quarter, we have announced order wins with multiple OEMs which further provide us a healthy growth visibility for years to come. We are further encouraged to share that just in a span of 5 years, Alicon has captured a total order booking of over Rs. 3,150 crore. This is a commendable feat for the whole organization, and we look forward to registering a stronger and sustained order wins going forward.

Health and safety of our employees is one of the key focus areas for us and I am happy to share that 100% of our entire employee base has been vaccinated with first dose and 78% of our employee base has been fully inoculated for the second dose. The remaining second dose will be completed by December. We are slowly marking a return to normalcy with our corporate office plant and facilities operating at a stabilized manning level. As Rajiv mentioned, these indeed are exciting times. We are seeing a set of well-intended initiatives undertaken by the government towards boosting growth in the economy and towards developing India as a strong player in the global auto value chain. A series of announcements made from scrappage policy and FAME scheme to recently announced PLI, all work in favor of the domestic auto and auto component sector in multiple ways. We are currently studying the recently announced PLI scheme to understand how we can take benefit and we'll be sharing updates with you regularly.

Ecosystem for EV is shaping up pretty well and initiatives taken by the government are further driving the EV adoption. Based on a strong momentum, my colleagues have already indicated that we have raised our revenue share from EV to 36% by FY 2025-26. Given the exciting developments, we have an aspirational target of 45% by FY2025-26.

On the whole, we look forward to a promising future and continue to stay focused on our objective of being future ready and being consistent, trustworthy, and a reliable partner to our strong and growing customer base.

On this note, we would be happy to take your questions now.

**Moderator:** We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Raghunandhan N L from Emkay Global. Please go ahead.

**Raghunandhan N L:** Congratulations for a good set of numbers. Sir, firstly, within the overall order book, can you indicate the share of EV orders and also the expectation in terms of annual revenues this year and next year, and if you can also share the major EV customers for the company in domestic market, especially on the two-wheeler side?

**Rajiv Gupta:** I will first answer on the EV. Having European hub in an early stage and having a first mover advantage, Alicon is aiming partnership with OEMs by providing lightweight solutions, HPDC to LPDC conversion by giving customer advantage of lower CAPEX, thermal solutions for the components like battery housing and motor housing, the future technology, and further solutions for a structural relevant EV part. We have developed till now 80 parts from 13 customers till now. Last quarter also, we have added good progress which already my colleagues have explained in the call. Talking about domestic front, yes, we have added till now 53 parts in domestic in the EV front.

**Raghunandhan N L:** If you can also talk a little bit on the non-auto segment, the revenue share has come down to 6% this quarter, how do you see it going forward?

**Rajiv Gupta:** Going forward, as my colleagues have just explained, the tender of 4,000 wheels has been submitted to defense and we are expecting a finalization by January 2022. We are penetrating with existing customers like Siemens, GE, IR, Honeywell Automation. We are focusing to get global locations from the same platform, and we are also focusing on high value add with critical and complex parts like cylinder heads from a customer's track store.

**Raghunandhan N L:** On the gross margin side, I understand the part about optical compression, but going forward, how do you see the gross margin improvement triggers going ahead? I just wanted to understand that within the current quarter gross margin compression, there would be factors like under-absorption of fixed costs due to inventory adjustment or lag in pass-through of cost increases even on the freight side. Can you help us understand what would be the gross margin improvement triggers, going ahead?

**Vimal Gupta:** The EBITDA margins for this quarter, it is coming around 9.4% and as is explained that we have the impact of aluminum pricing. If you remove the effect of those things, in real terms, we have the EBITDA margin of 10.5% instead of 9.4%. That is one for

the quarter. And you know that I have explained, the major impact has come from the costs like energy as well as logistics. That has impacted approximately Rs. 7 crore in this quarter. And now, we, because after this increase, started the negotiations with our customers because we have the settlements in the pricing and it also has to be passed through. So, we are expecting that we will get this benefit in the coming quarters – Q3, Q4, and in the future. So, for the full year, the margins will be in the range of 12.5% to 13% and going forward as I explained in my speech that approximately we will be normal in the range of 14% to 15% in the coming years.

**Raghunandhan N L:** One last question from my side. On the PLI scheme, I understand that you are studying the scheme and you will come back with more details, but just wanted to understand would we be benefiting directly or indirectly from this scheme. Just wanted to understand how does it apply to us? Because we do qualify on the eligibility criteria.

**Swapnal Patane:** The scheme was currently notified yesterday and we are further studying the components notified by the government. As per our understanding, some of our components from the EV will qualify for this scheme, and we are discussing the same with our consultant and we will give detailed benefits in 2 weeks' time.

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

**Saurabh Jain:** My first question is about Ather. Ather recently posted a robust set of numbers. For the month of September, they posted a sales volume of around 3,500 which was multifold albeit on a low base, but they have also showcased huge growth plans. So, my question is, if you can throw some color on how many contents do we supply to Ather and how much business does Ather contribute?

**Rajiv Gupta:** I agree we have noted the volumes are promising for Ather and the good thing is, the content per vehicle with Ather for Alicon is around 17 kg which is very promising. It was somewhere around 2 to 3 kg when it was ICE vehicle. With that approach, definitely we see a good growth along with Ather.

**Saurabh Jain:** Is it possible to throw some light on the contribution from Ather? What is the size of the business do we get from Ather?

**Rajiv Gupta:** This will be around 3% on a higher side, approximately 3% to 4%.

**Saurabh Jain:** 3% of the total turnover?

**Rajiv Gupta:** Right.

**Saurabh Jain:** Sir, my second question is, our European subsidiary, the performance was relatively softer as compared to last 3-4 quarters, but on the profitability front, we have done quite well, better than last 2 quarters. So, if you can tell us how is the outlook looking for the 2<sup>nd</sup> half? Last year, we did a turnover of around Rs. 75 crore from Illichmann. So, do we think we will be exceeding that in the 2<sup>nd</sup> half?

**Vimal Gupta:** First of all, because in Q2, there were holidays in Europe. Due to that, the sales were a little bit down against when we made a comparison with the Q4 FY21 or Q1 FY22, but you see that we are able to improve even further our margins if we compare with the previous quarters. So, in the EBITDA, we have crossed the 20% against the 19% in Q1 FY22 and approximately same in Q4 FY21. So, going forward, we are feeling that we will be able to maintain this growth in the 2<sup>nd</sup> half of the year in Illichmann with the same margin in spite of having the issue of the chips.

**Saurabh Jain:** This was also on account of EBITDA margins which you just mentioned that for the full year, you are looking at 12% to 13% kind of EBITDA margins to close this year. In Q1 and Q2, we had 8% and 9% respectively. In the 2<sup>nd</sup> half, looking at your estimates, it should be around 14% to 15%. So, what kind of turnover are we expecting? Because of this pressure on gross margins and other constraints which you mentioned like chip supplies and all. Are we still very confident of closing the year by 13% kind of EBITDA margins?

**Vimal Gupta:** Yes, in this, the main important thing we should remember that when we talk about the new orders, now we have started the supplies against the new order wins, and in this year, approximately Rs. 260 or 265 crore we will do. So, major revenues are now we will get from these new orders in the 2<sup>nd</sup> half and with good margins. And secondly that I have explained that now we are in settlements with the customers for price increase against this increase in the cost of commodities, especially in the energy as well as in the logistics and that we have already built up in our cost. So, we are sure that we will get it.

**Saurabh Jain:** So, 14% to 15% is quite achievable for the 2<sup>nd</sup> half, right?

**Vimal Gupta:** Yes.

**Moderator:** The next question is from the line of Pranati Trivedi from Electrum Capital. Please go ahead.

**Pranati Trivedi:** I just have 1 quick question. In your Q4 FY19 call, you had guided that non-auto contribution will reach around 12% by the end of FY22. Has this guidance changed seeing how the EV market is picking up in the domestic market? When can we achieve this target? Also, if you can give some color on what will contribute more to the EV contribution increasing – two-wheelers, three-wheelers, or passenger vehicles? And can you also give us a breakup for FY21 and H1 FY22?

**Rajiv Gupta:** Coming to the first point on non-auto, yes, our performance was good in the last year quarter first basically non-auto just because the auto had a turmoil, and that is the reason we were able to get good sales post-realization of non-auto. This year we noted the volumes were on the sluggish side for non-auto, but we are seeing a promising which I have explained good numbers going forward. If you see, we are aiming now to touch around 7% to 8% next year and we are aiming to take this non-auto to 14% in the period of 3 years going forward.

Coming to the good margins on the EV front, yes, if we see in terms of component and segment-wise, in passenger and commercial, we get good margins because the weight of those parts are on a higher side compared to two-wheelers. Also, we get the opportunity with our value-added service, and we are doing extremely good in this area. We are actively in touch with customers like Dana who are pioneers into this area. We have already developed a lot of parts for the commercial vehicle with them, and also we have explained in our script the way we are approaching new customers like ARRIVAL and TACO for the passenger vehicle of Tata motors.

**Pranati Trivedi:** Sir, if I can ask one more question, can you give me some clarity on the current order book visibility and what would be your incremental yearly average sale? I think you have mentioned Rs. 625 crore. Is that correct?

**Rajiv Gupta:** Right.

**Pranati Trivedi:** That is incremental?

**Rajiv Gupta:** Yes, this will be my average yearly sale of Rs. 625 crore. If we see incremental, next year we are planning to book somewhere around Rs. 480 crore from these businesses and this will touch to around Rs. 750 to 780 crore at the peak period, somewhere around FY 2025-26.

**Pranati Trivedi:** Order book visibility?

**Rajiv Gupta:** This was on the order book visibility. The sales what I mentioned, these are from the new orders what we have booked till now.

- Moderator:** The next question is from the line of Nakshita Mehta from Credent Asset Management. Please go ahead.
- Nakshita Mehta:** My first question is on the cash at hand. I noticed that it has reduced to a great extent. Can I know are we making any capacity expansion. Is there any CAPEX?
- Vimal Gupta:** Yes, because we have the new orders, growth plans are there. The only thing is that we are controlling all the CAPEX. For this year, we made a plan of around Rs. 90 crore at the beginning, but now we have deferred or reduced, and for this year, we are expecting to close in the range of around Rs. 60 crore. But definitely we will require the CAPEXes to fulfill or to serve our customers against the new orders that we have won.
- Nakshita Mehta:** We are making the CAPEX from internal accruals, is it? Completely?
- Vimal Gupta:** Yes.
- Nakshita Mehta:** My next question is on the debtor side. What would you say in how much time do we receive the payment – the receivables? What will be the credit period?
- Vimal Gupta:** It totally differs from customer to customer. From 30 days, 45 days, 90 days; and for the export side, on the longer side also, approximately it takes 120 to 150 days. But overall, we are working on this and this September also, a little bit, I explained that the aluminum price is increased and it is a complete pass-through, but it takes time because it suddenly happened in the last 3-4 months. So, around Rs. 25 crore stuck in this and that will be realized in October and November in this quarter at least that we will be able to realize that money. Maybe you will be able to see that in the coming quarters – the impact of that; as well as like we are explaining the new developments are happening, so a lot of new orders. Because we have to develop the tooling, the dies for all the new parts. Maybe some customers they pay and some customers we have to amortize. Amortization is one part, they pay initially some advances, but it takes time to realize the full money. So, that is the reason for a little bit now we see a small increase in the debtor size.
- Nakshita Mehta:** Sir, my next question is on the capacity utilization. I understand that it is 60% to 65% as of now because of the chip shortage as well, but can you hint me on what was the pre-Covid level?
- Vimal Gupta:** It was around 80% to 85%.
- Nakshita Mehta:** So, there is a 20% hit that we have taken on the capacity utilization?

- Vimal Gupta:** Yes, 15% to 20% we have to keep idle because there are fluctuations in the volumes of the customers because suddenly in the festive season, there is a job like that.
- Nakshita Mehta:** Coming to the EV; first of all, it is a very good opportunity for aluminum companies. As you mentioned that 90% is from two and three-wheelers, correct? Out of our two-wheeler customers, how many are into EV and how many have planned for expansion?
- Rajiv Gupta:** If we talk about two-wheeler EVs, yes, we note that there are about 40+ startups now and we are in touch-base with 20 such startups. We have already RFQs like Ola, UltraViolet, SimpleEnergy, and many more, and we are hoping to get some breakthroughs going forward. We are already there with Ather and Tork motorcycle which has now arrived and SOP will start. Talking about the OEMs, yes, initially there were plans.... not very soon, but seeing the consumer behavior, now they are planning to start the developments in early stage. So, we are actively involved with these OEMs on a regular basis for early-stage participation for the components.
- Nakshita Mehta:** On the PLI, now you will be getting the PLI benefits. Can we assume that in the next quarter, the benefits would be realized and then be seen on the raw material pricing and on the margins?
- Vimal Gupta:** We will be studying this and will come back in the next quarter.
- Nakshita Mehta:** Just one last question. I just saw in the previous quarter, i.e., July, there were some preferential share issues. Was it a fresh issue or did the promoters reduce their holdings?
- Swapnal Patane:** It was a fresh issue to the Promoters and our Japanese collaborator also.
- Moderator:** The next question is from the line of Karthik Keyan from Suyash Advisors. Please go ahead.
- Karthik Keyan:** One thing is, in terms of the order book that you spoke about Rs. 3,000 odd crore and the schedule of about Rs. 480 odd crore; a) How exactly have you factored in the volatility in raw material prices? b) How exactly will you be able to protect yourself? Some thoughts on that would be interesting.
- Vimal Gupta:** For the raw material, we are making settlements with pass-through conditions. We don't take any exposure in the raw material fluctuations except within the quarter. Time difference may be there because some special settlements on a quarterly



basis, some monthly basis, so that maybe 1 month up and down that may be the impact; otherwise, we don't have any impact.

**Karthik Keyan:** So, you are basically saying that the embedded profitability on the Rs. 3,000 odd crore would be in the 15% ballpark range that you indicated or it could be better also?

**Vimal Gupta:** Yes.

**Karthik Keyan:** Secondly, in terms of the shipment scheduling, is it contingent upon certain conditions being fulfilled or do you believe that this is reasonably a done thing? Because, I remember on 3 separate occasions, you had indicated 3 different numbers. I am not holding it against you but just saying that these things happen because of various variables. So, is the Rs. 480 crore number a more given thing or could this vary as well?

**Rajiv Gupta:** This will be somewhere in that range because if you see the orders what we have booked, around 60% is from the existing market new product or a new market new product. This means we have captured a new customer or a new market. So, we are quite sure this will add on rather than this will be sluggish with the existing market.

**Karthik Keyan:** Just to clarify, my question was whether this is a confirmed schedule or is this contingent upon certain other aspects like for example, the chip availability is a macro issue, but apart from that, is there any other variable in this schedule? That is what I was trying to understand.

**Rajiv Gupta:** Yes, this is based upon the confirmed schedules received from our customers. Yes, I do agree chip shortages have come up but we have done a thorough research, studied with our OEMs also what we understood this will be there for another 5 to 6 months. Thereafter, things will be under control.

**Karthik Keyan:** One last thing, sir. When you spoke about supplying 17 kg of components to Ather Energy, is there further scope to increase this for Ather? Can you also share some color on how this has gone from 2 to 17 kg?

**Rajiv Gupta:** In ICE vehicle, I have an opportunity with the cylinder and BFT, but if you talk about Ather, they eyed it as a premium segment and they involved our designer at the start of the project. They wanted a unique product to launch which will be durable and very innovative and lightweight because this is very important in an EV vehicle because a light vehicle will help to give you good performance, and with that ground, they have involved us in making those components with aluminum parts. And that is

the reason we get more opportunity with the content per vehicle in the EV space with Ather.

**Karthik Keyan:** One product question if you will permit me to. You have talked about several order wins, and I am assuming that the competitor landscape is global rather than local. What exactly is helping you win these orders? Can you talk about some specific points that have helped you to win these orders?

**Rajeev Sikand:** I think there are two of them. In the EV space, we started with our European entity in 2016. It gave us a much more headroom and whatever we learned from our development there, we have been able to bring that to India both for Indian OEMs as well as global OEMs because that is our strategy to move that part towards and of course, working right at the start of the design. It is not so easy for them to change. For some of them where the design is fixed, but for others, it is more easier. Secondly, our move into the tech-agnostic parts which are either ICE or EV is the focus area, and this focus area is helping us to break more international OEMs which require these kinds of components.

**Karthik Keyan:** How do you assess the global demand-supply scenario for aluminum castings? What I read is that there has been a fair amount of capacity added. Can you bear the doubt?

**Rajeev Sikand:** You also see what is happening on the greenhouse gases and things like that. Eventually, India has an opportunity I think with China also going more towards greener, the cost will be much more. India can offer competitive logistics and other things. We have a much more scope on the aluminum parts, and this will for quite some time, it will remain with us as the Indian subcontinent.

**Karthik Keyan:** And do you perceive inorganic opportunities with some of these European possible capacities, especially for their technology that they may bring to the table? Is that something that you consider as a possible option?

**Rajeev Sikand:** Actually, these have been coming to us. It has been there for the last 3 years very actively, but our thing is that what are we looking at? We are either looking at we have our own entity there which is leading edge in all these OEMs. Either we look at somebody who has a very significant presence in domain, and we marry with the domain partner. So, right now, the opportunities are there and we will sooner or later grab a foothold ourselves.

**Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

**Vimal Gupta:** 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:** Ladies and gentlemen, on behalf of Alicon Castalloy, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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