alicon

Casting the Future

August 07, 2023

To	To
The Manager	The Manager
The Department of Corporate Services	The Listing Department
BSE Limited	National Stock Exchange of India Limited
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Dalai Street, Mumbai — 400 001	Bandra (East), Mumbai — 400 051

Scrip Code: 531147 **Scrip Symbol: ALICON**

Dear Sir/ Madam,

Sub: Transcript of Analysts Conference Call

We are enclosing herewith the transcript of conference call with analysts, which took place on 27th July 2023, after announcement of the unaudited Financial Results for quarter and financial year ended June 30, 2023. The said transcript is also uploaded on website of the Company.

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

Thanking you,

Yours faithfully,
For **Alicon Castalloy Ltd**

Vimal Gupta
Chief Finance Officer

Alicon Castalloy Limited

Q1 FY24 Earnings Conference Call Transcript
July 27, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Alicon Castalloy Limited's Q1 FY'24 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you, and over to you.

Mayank Vaswani: Thank you. Good day, everyone, and thank you for joining us on Alicon Castalloy Limited's Q1 FY24 Earnings Conference Call.

We have with us on the call today; Mr. Vimal Gupta, Group CFO; Mr. Veera Babu, Group COO; Mr. Shyam Agarwal: Chief Marketing Officer at Alicon Castalloy; Mr. Andreas Heim: Managing Director of Illichmann Castalloy; and Mr. Rajiv Gupta: Head of Domestic Business of Alicon Castalloy Limited.

Mr. Vimal Gupta: will cover the financial performance for the quarter, following which Mr. Agarwal will walk us through the operating highlights. Thereafter, Mr. Andreas Heim and Mr. Rajiv Gupta will provide insights on developments in the global and domestic markets respectively. Mr. Veera Babu will then share a brief summary on key focus areas after which we shall open the call for the Q&A session.

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

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

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

As we have indicated earlier, 2018-'19 was the best year in the last few years for the global Auto industry. Our assessment is that, in Q1 of FY24, the domestic industry has reached a performance level of approximately 81% of the base set in Q1 of 2018-'19. For the international auto industry, the rate achieved in April to June of 2023 is about 84% level of the production in April-June of 2019.

At Alicon, our revenue performance in the first quarter is around 120% of the benchmark that we had set in the corresponding period in FY2018-'19. This clearly show outperformance when compared to global and domestic auto industry. This has been driven by the addition of new parts as well as new customers.

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

These pillars are:

- Continue to scale strategic products in the ICE business
- Addressing the opportunities from Carbon-neutral technology, including Battery Electric Vehicles, Hybrid Electric Vehicles, fuel cell and hydrogen cell technologies
- Opportunities from structural parts or technology-agnostic parts, which remains consistent, no matter which fuel technology is used to power the vehicle
- Non-auto business encompassing opportunities from sectors such as defense, energy, telecom, to name a few, where our competencies can be leveraged,

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

There are some key themes for investors to monitor and to evaluate our progress and to understand the areas in which Alicon has transformed the business model. The first aspect that we had communicated, and which is visible in the business is the enriched product mix. The share of PV and CV in our revenue mix has been steadily increasing as we have focused on scaling up business from these segments as well as Carbon neutral technologies and Technology Agnostic parts. The share of business from these segments will grow at a faster pace than from 2 wheelers leading to better product mix.

Secondly, the Customer profile is changing and there has been addition of some marquee, global names to our customer list. There has been a considerable increase in the number of leading Global OEMs and Tier 1 suppliers that we cater to.

Thirdly, the component of business that is emerging from expertise in design, research and development and value engineering is increasing. Earlier the key levers for business wins were reliability and cost competitiveness. Today, Alicon is winning business due to capabilities and design engineering which is contributing to the changing nature of the business. Customers now look at us as solution providers rather than a source of lower cost components.

In that backdrop, I will now run through the financial performance for the quarter under review.

In Q1FY24, total income stood at Rs. 355 crore as compared to Rs. 344.00 in Q1FY23, higher by 3% on a year-on-year basis. More importantly, on a sequential quarter basis, we have delivered revenue growth of 11%. This has been driven by production commencement of new parts and new customers. Further, some of our customers witnessed stronger than expected demand resulting in an increase in volumes. There was also some benefit in two-wheeler volumes as OBD regulations which kicked in from April contributed to volumes which spilled over from Q4.

As a result, we have witnessed a slight increase in utilisation levels for plants in India and Europe which operated at a utilization level of around 65%.

The gross margin for the quarter, which was 50.42% in Q1FY24 compared to 47.48% in Q1FY23, is higher by 294 basis points on a year-on-year basis, largely due to a more favorable product mix. There has also been a slight contribution from the stabilising of alloy prices at lower levels.

On a quarter-on-quarter basis, the Gross Margin has reduced from 51.6% in Q4FY23 to 50.42% in Q1FY24. This quarter, we consumed higher cost inventories which have now fully passed through the system.

There has been a sharp rise in employee costs which are higher by 20% year on year and by 18% over the immediately preceding quarter. This is due to an increase in minimum wage as well as the effect of the increments which have kicked in from April onwards. Lastly there was the impact of the ESOP cost of around 3.3 crore which is a non-cash charge. Other expenses were lower on a quarter-on-quarter basis as we have focused on cost cutting initiatives at all levels of the organisation.

Moving on to the profitability front, EBITDA for the quarter stood at Rs. 40 crore as against Rs. 38 crore in the corresponding quarter last year. Margins for Q1FY24 stood at 11.3% as compared to 11.0% in Q1FY23. I am pleased to share that despite the increasing costs, we have reported an improvement in the EBITDA margin by 30 basis points on a year-on-year basis and by nearly 100 basis points on a quarter-on-quarter basis. Importantly, if we adjust the non-cash charge for the ESOP cost, the adjusted EBITDA margin is 12.2% this quarter. This is an increase of over a 100 basis points on a year-on-year basis and close to 200 basis points on a sequential quarter basis.

Some of you would recall our earnings call in the prior quarter where we had indicated that we will increase the EBITDA margin by 100 basis points in FY24. We have done more than that in the first quarter itself and are poised to build on this through the year. We remain confident about the general upward direction in margin given the improving product mix. Further, we are on the cusp of launching our captive solar plants in India and in Europe which will contribute through assured power while helping to ease the power and fuel costs.

In the prior quarter, we had indicated that we had incurred upfront costs due to the initial stabilization requirement of new products. These have now stabilised and are contributing to enhanced unit contribution.

Finance Costs were higher by 33% on a year-on-year basis from Rs. 7.1 crore to Rs. 9.5 crore in line with the increase in interest rates. We also witnessed an increase in depreciation which was higher by 23% on a year-on-year basis from Rs. 15 crore in Q1 last year to Rs. 18.4 crore in Q1FY24. The increase in depreciation has been driven by two factors – one we have taken some machines on lease and as per the accounting standards we have to factor a maximum useful life of 5 years which results in a higher depreciation cost. Secondly, we re-evaluated and shortened the useful life of some other assets which has also contributed to the increase in depreciation.

As a result of higher finance cost and depreciation, Profit After Tax for Q1FY24 stood at Rs. 9.5 crore as compared to Rs. 10.8 crore in Q1FY23, lower by 12% on a year-on-year basis. On a sequential quarter, while PAT was lower by 2% from Rs. 9.7 crore to Rs. 9.5 crore, it must be noted that the PAT in Q4FY23 included a reversal of deferred tax of around Rs. 6.85 crore thereby elevating the base.

I am pleased to share that our Board of Directors has approved a final dividend of Rs. 3.75 per share of a face value of Rs. 5 each which equates to 75% rate of dividend. In addition to the interim dividend declared earlier, the total dividend for FY22-23 comes to Rs. 6.25 per share of a face value of Rs. 5 each which equates to 125% rate of dividend. This is substantially higher than the dividend paid in prior years which reiterates our focus on shareholder value creation.

On the capex front, we have deployed INR 15.6 crore during the quarter and continue to have a target capex deployment of around Rs. 90 crores in FY24.

Coming to the outlook:

With a strong start to the financial year and a healthy pipeline of SOP from new products and new customers, we are poised to take the business to newer heights. We aim to deliver a revenue of over INR 2,200 crores by FY 2025-26 against the earlier estimate of 2,000 crore. This equates to a CAGR of over 16% for a period of three years. Our confidence stems from the new orders which we have received and the discussions with the customers on new technologies and solutions.

This will be accompanied by an improved margin profile and we aspire to take the EBITDA Margin to around 14% and we have already attained an adjusted EBITDA of 12.2% in Q1FY24 which we will look to build on further. Lastly, we are looking to drive efficiencies across the balance sheet and in working capital which will contribute towards enhanced return ratios too.

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

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

As Vimalji has indicated, we have started the financial year 2023-24 on a positive note. We have performed well in new markets and with new products. The industry backdrop remains mixed with some segments reporting good momentum and others witnessing challenges due to supply chain issues. Despite this, we have delivered good revenue growth especially on a sequential quarter basis.

During the quarter we added 17 new parts from 11 customers including 2 new logos. This includes 3 parts from EV, 6 parts from ICE, 3 parts from Non-Auto and 5 parts from the structural segment. Of the 17 parts, 10 parts are for international business and 7 parts are for domestic business.

During the quarter, we added a new part under the e-highway segment with a prominent European Customer. We also added a new part in a new market for autonomous driving with Volkswagen Commercial. These businesses will showcase capacity and capability to both existing and potential customers.

Alicon has also won its maiden order amounting to 90 crore per annum requiring application of the Friction Stir Welding technology from a European Customer for a EV application. The FSW technology can be a key enabler for us to increase the EV business two-fold by 2025-26.

In the ICE Segment, we have added a new subcategory of products with our existing customer Daimler. We have increased the wallet share from Maruti Suzuki with the addition of new cylinder head.

In the Non-Auto business, we have added business in the existing portfolio and are in active discussion with existing customers for further addition of parts.

During Q1FY24, Alicon has booked new orders aggregating yearly average sale of 110 crore. With this, our total order booking has reached to 8,500 crore which is executable over a period of 6 years from 2023-24 upto 2028-29.

The other aspect to highlight is the improving product mix. From the new business won about 52% is from the Carbon Neutral business which is value accretive. Further, 90% of new business during the quarter is for 4 wheelers which will serve to enrich the product mix further.

The commencement of supply for these orders, along with the start of production across our aggregated orders booking will contribute to the revenue momentum. We remain cautiously optimistic about our prospects even as forecasts for the global auto industry indicate possibility of a sluggish second half.

Another focus area for our value creation approach is to increase the value addition mix from our products for four-wheeler and CV segments. In Carbon-neutral technology, we are in discussion with existing customers to increase the scope and our portfolio. Our focus remains on Passenger Vehicles, Commercial Vehicles and export opportunities as we see a greater scope for value addition in these areas.

The focus is to continue to build the position of Alicon as a consistent and reliable supplier with a solution driven approach. Customers should understand that Alicon will offer unique solutions by leveraging newer technologies.

We had talked about 3D sand casting in the prior quarter and have made progress in friction stir welding too with our maiden order win. These applications will enable us to offer parts for the future which are light, strong and of high quality.

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

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

The international business has done well and we have surpassed our targeted production for the quarter. European operations are gradually emerging from the challenging situation witnessed last year. Gas prices have stabilised and energy availability has improved which combined with some cooling in alloy prices, is providing our customers confidence to start ramping up the activity levels.

In our existing business this quarter, we witnessed an increase in EV products for Samsung which is a Tier 1 supplier.

As explained by Shyam, we have added 5 new parts from 2 new logos this quarter in the global business. We have added a part from Volkswagen Commercial for Autonomous Driving Applications. While we have done work for the passenger vehicle business for Volkswagen, this is the first time we are working for the Commercial arm.

We have added 4 parts with a prominent European OEM leading to the addition of another marquee logo for us. We have also been invited to work on development of a prototype for a path breaking project. This envisages developments of ehighways or electrification of highways. This will be achieved by providing overhead lines as is done in the case of railway lines. Since the key challenge for electronic CVs is the size and life of the battery, the ehighway concept that is being prototyped which will enable CVs to recharge on the move which will solve for the challenges of battery size and inadequate charging infrastructure.

We are also in discussion with a marquee global customer for a new part in the category of structural or technology agnostic parts. The order which we received from JLR last year is progressing well with involvement of best of technology and resources both locally and overseas

As we had indicated last quarter, the end of winter has aided demand for 2 wheelers and we have seen that reflected in increased volumes for BMW and KTM which picked up as anticipated.

The global business contributed to 23% of the total revenue during the quarter and is slightly higher than the contribution from Q4FY23 as well as the prior Financial Year.

On our initiative to reduce costs, we can share that we have commenced installation of solar panels and expect these to be activated in Q3 which will lead to reduction in energy costs and reduce the carbon footprint.

The outlook remains mixed as stabilising of energy costs and commodity prices can improve prospects. However, the forecasts for the auto industry indicate softening of demand over the course of the year. Hence, against our original expectation of 5% growth for the global auto industry in calendar year 2023 we now anticipate a growth rate between 4 to 4.5%.

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

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

In Q1FY24, domestic automobile market witnessed 3% growth on a yoy basis, driven by

- 7% growth in PV segment
- 1% growth in 2W segment, and
- 2% decline in CV segment on a yoy basis

The domestic PV industry's volumes grew by ~7% YoY in Q1 amid ramp-up in production and continuing interest in SUVs

The domestic 2W industry was expected to benefit from spillover in demand from Q4FY23 due to impact of OBD regulations. However, there was only marginal increase in volumes due to supply chain issues with few vendors. Further, 2W exports also remained weak on a YoY basis.

The domestic CV industry's volumes declined by ~2% YoY; the sequential decline was sharper than usual due to seasonality and some pre-ponement of demand in Q4FY23 because of RDE/OBD2 norms coming into effect from Apr-23.

As explained by Shyam earlier on new business, we have added 7 parts from 6 customers in the domestic business. These are largely existing customers for whom we have experienced expansion of portfolio. We have increased the portfolio with Maruti Suzuki with the addition of 4 wheeler cylinder head. Further, we have added a new sub category (Cylinder block) in a prominent domestic customer resulting in increased content per vehicle for us. In a domestic 2 wheeler customer, we have increased the portfolio with addition of a new part which will also contribute to increase in content per vehicle.

In the Non-Auto business, we are working on tenders for two products. One is for supply of wheels for the battle tanks and we are also in line to win the order for cylinder heads for the heavy-duty defense truck, which will commence production in the coming quarters.

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

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

With a good performance this quarter and with outperformance compared to the domestic and global industry we are actively working on certain initiatives to further build on the momentum.

In order to further elevate our manufacturing excellence and process expertise we are actively implementing digital process controls. This will ensure that our production process is elevated by an additional layer of supervision through machine intelligence. These will also provide us data which will help to actively manage the operations as well as provide inputs for better decision making going ahead.

Secondly, we have taken the initial steps in our automation journey. A detailed roadmap has been drawn up evaluating the areas in which automation can be introduced in our processes. We are working on assessing the advantages and efficiencies this will bring and the various parts are being demarcated into those that can be fully automated versus those parts that can only be partially automated for now.

As a forward thinking organisation, we are seeking to protect ourselves from any risk to competitiveness from rising manpower costs. As we progress on this journey, we are confident that automation will bring in noticeable benefits across process excellence and product quality in addition to cost benefits.

We have significant aspirations to build the business further and have elevated our people processes. The focus is to acquire rich talent with the right technical expertise. As we seek to increase customer wallet share and enhance the share of value addition, it is essential to add the right talent which will enrich organisation competencies. We are actively adding associates with casting expertise and machining expertise to our global teams.

In order to better deal with complexity we are adding experts from Europe who possess skills in design and tool development. By placing these experts in our European operations and leveraging the global teams for prototype development for global customer we are ensuring that we are closer to the customer and contributing to shortening the timelines for development.

As we shared earlier, we are actively working towards increasing our sustainability footprint. The captive solar plant in India has been commissioned and will begin contributing to energy consumption and contribute savings in the current quarter itself. The installation of solar panels at our facility in Europe will be completed this quarter and begin contributing in the third quarter. These initiatives will meaningfully transform our energy mix.

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

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Raghunandhan NL from Nuvama Research. Please go ahead.

Raghunandhan NL: So, it is heartening to see that revenue target has been increased to Rs. 2,200 crore. On my questions – firstly, can you give some color on the execution of new orders in FY24. Would you expect revenue to be over Rs. 1,600 crore this year, Sir?

Vimal Gupta: So, Raghu, we are expecting to reach around Rs. 1,600 crore. The second half of the year will be the most critical because we are going to implement various new projects. The deliveries will start and there is a ramp up in the volumes for the new projects. But we are expecting to reach that level of Rs. 1,600 crore, that is the target we are having this year.

Raghunandhan NL: So, the ramp up which you're talking about, can you call out, which would be the main one, would it be JLR, Toyota and PSA?

Rajiv Gupta: The ramp up, you talk about the major contributors would be Toyota. Everyone knows Toyota is doing quite well. The vehicle which they have launched the Hyryder 1.5 liter and also Hycross and this is added with the launches even declared by Maruti because it's the same platform which the vehicle will go, and Toyota have given official indications to relook on the capacities to support in the Quarter 2 and Quarter 3. So, the main contributor is, yes, Toyota.

The second is PSA, which you all know, they have already invested in a plant in Bangalore and so we have just started. So, this also will be productionized. We are expecting numbers to be added next month. And the good thing is this is for the domestic as well as the French market. So, we know the vehicle which they have launched, it's a Citroen C3. It's picking up quite well and we have good response from the French market on that ground.

The third contributor would be Maruti Suzuki. As we have explained, we want to increase our portfolio in the Passenger Vehicle, especially in the markets and area where we were not there. And Cylinder Head being a very critical and basically showcase the capacity and capability and that we are aiming and which we have noticed in the last couple of quarters, we are explaining additional businesses with Maruti. So, yes, we have these parts that are going into supplies now and we are expecting one more Cylinder Head will join in the coming quarters.

Vimal Gupta: So, for Maruti, we are expecting a good jump in the volumes in the coming quarters, especially from Quarter 3 that is the second half.

Raghunandan NL: And on JLR side, like a company announced that they will be starting the bookings of their upcoming electric vehicle from October onwards. So, even our supply should come in?

Rajiv Gupta: The JLR eAxle which we were announced, I think it was in August last year the business what we have bagged it's again for a platform which will come in 2024-2025 and we are working in a right pace on that project and even we have given them an option. Even JLR first time is working on that model of a critical development of the eAxle where they have done various iterations and here we are on right track but this will come in SOP in next year, not this year and we are seeking to get support major chunk in 2025-26 from that project. To add on the previous point, even we are noticing on EV, the demand increase for Tata Motors and we have explained last time two of the Motor Housing we have already added and this is now gaining a momentum. Also, we are coming across from customers that similar platform they are also exploring to other OEMs, so this is a very good opportunity where we get immediate volume increase for the part what we develop.

Also, Dana which we added is now picking quite well. So, these are some of the main contributors which are drivers which we think will support us to boost but let's keep our fingers crossed because we know market is still volatile. What we understood from markets especially on global, first half it noticed the growth of 10% but we noticed in the second-half the increase what they're expecting is 1% or 2% only. That is because the US as we know the interest rates are at the peak and other challenges in economies like China and so on. But yes, we are ready on those grounds. Also, we're exploring. Plan A, Plan B just to see that we don't fall back with the capacities what we are putting for these numbers.

Vimal Gupta: And Raghu, in addition to this, like the ramp up of the new projects as well as what we are seeing that there is a shift of businesses like TACO, what they are sourcing from China. So, they are shifting to India, and we have almost finalized their one big business with TACO. So, hopefully from Quarter 3 the supply we will be able to start.

Raghunandan NL: Which was the company, Sir?

Vimal Gupta: TATA AutoComp, they are supplying the components for TATA Group.

Raghunandan NL: That's wonderful to hear, thanks so much for the detailed response. Vimal Sir, on the ESOP cost, the Rs. 3 crore cost was there in Q1. Is this the expected to be repeated even in the subsequent quarters?

Vimal Gupta: So, this is for this year but from next year, it will be a very small amount. This amount is coming to for this current year that is a notional cost.

Raghunandan NL: So, all things remaining constant Q2 onwards, we should see margin around 12% then?

Vimal Gupta: Let's see.

Raghunandan NL: And the captive solar plant in India and Europe coming in Q2 and Q3, Mr. Veera Babu spoke about it. So, what kind of cost benefits can it provide?

Vimal Gupta: So, in India almost we are expecting to make a saving of around Rs. 4 crore to Rs. 5 crore in a year. And in Europe also because it is a small plant, so let's see Rs. 8 lakh to Rs. 10 lakh, it will not be a big jump big savings but they are also going for this solar power.

Raghunandan NL: So, for the full year is it fair to assume around 12% margin or would you see any risk to that?

Vimal Gupta: Yes, we are hopeful that we will be able to deliver this and maybe better, but it depends on the performance because the only risk what we are seeing in the second half, how this overall economy performs in the global market especially otherwise, we have very strong order book, demands are there and we are seeing the improvement in the operations and costs are going down so let's see.

Raghunandan NL: And the journey from 12.2% margin in Q1 going towards 14% margin by FY25-26, would it be right to assume that one scale benefit, second mix improving towards more value-added and overseas products and 3rd your cost saving efforts like automation, what would you think would be the top 2-3 factors which will take you to 14% over the medium-term?

Vimal Gupta: Raghu, the most important is the product mix on what we are working on. Especially as you are aware that there were contributions from the two-wheeler that was higher in earlier years, that has started going down year-on-year basis. That we used to have more than 50% just three years back, now we have reached 43% in this quarter so that is one. Second is to bring down the cost of the projects that means our efforts to reduce our cost and third is like in last one call, we've explained about the stabilization cost of the new projects. So, hopefully new projects have started stabilizing so the production cost will start going down. And another benefit, which we will get is the economy of scale. So, these are the factors which are going to drive us to improve our margins in the coming years.

Rajiv Gupta: Also, to add on, we are working with a concept where we can increase our sales per machine. That is the reason we are exploring more towards a bigger and bolder part which will give us more revenue over the traditional parts where we were into and also if parts are small, we are working in a model where we can offer customers a multiple tooling solutions where again with our aim to increase our sales per machine.

Raghunandan NL: The last two questions from my end. On the debt side, how do you see the reduction in net debt? We are planning a CAPEX of Rs. 90 crore but given the kind of growth we are seeing; we should be generating positive free cash flows. So, how do you see the trajectory of debt reduction over the next two years?

Vimal Gupta: Based on estimates, at this moment we are in the range of Rs. 295 crore to Rs. 300 crore. So, hopefully in the next two years, I think Rs. 70 crore to Rs. 80 crore, we should be able to reduce our debts.

Raghunandan NL: And last question on the tax rate, what rate should we work with Sir around 24% to 25%, would that be a fair assumption?

Vimal Gupta: New tax regime we have now started following so that will come in the range of 24% to 25%.

Moderator: Thank you. Next question is from the line of Saurabh Jain from Sunidhi Securities and Finance. Please go ahead.

Saurabh Jain: I have a couple of questions. First to begin with, Sir, you have upped your revenue guidance by almost 10%, that's quite good, that shows our confidence and the momentum in the orders. I just wanted to know would you still call it conservative as we had been mentioning that Rs. 2,000 crore is a conservative number?

Vimal Gupta: Yes, that actually in our speech I have already explained that we have now improved the guidance from Rs. 2,000 crore to Rs. 2,200 crore by FY '25-26 approximately CAGR of 16%. But as I was explaining to the Raghu that a lot of opportunities are coming up, especially one we are talking about the development of the new parts because that takes little time for the ramp-up converting into the volumes. But another good thing is that we are receiving a lot of inquiries and we are in discussion with various OEMs and Tier-1 suppliers about the shift business, so the resourcing of those parts either from China or from other vendors or other countries, that has started. So, hopefully we will be able to revise our guidance for FY'25-26 in the coming six months on the upper side.

Saurabh Jain: That's great to hear, Sir. My next question is on gross margins, on sequential basis or margins have dipped so what is the outlook going forward? Do we see margins improving with metals stabilizing now?

Vimal Gupta: Metals have almost stabilized so definitely our focus is more on the improvement on the margins and we are working on each and every areas how we have we can improve this. So, the major focus is on the change in the sales mix and the product mix that is going to happen. And as we have already explained the order book size, the new orders what we are getting from the new customers or new parts or from the existing customers so that is happening. And when we are going for the new business, we are mainly focused on the margin side and the ROCE. Definitely in the coming period we will be able to improve our margins.

Saurabh Jain: For the last couple of fiscals, it was below 49.5%, now this quarter it is at 50.4%, can we assume around 51% for the full year and onwards?

Vimal Gupta: We hope so. It totally depends on the product mix, but definitely our assumption is also that it should improve.

Saurabh Jain: My last question, what number should we work with for depreciation and finance cost for the full year since these numbers were on the higher side this quarter?

Vimal Gupta: So, one thing that has impacted our costs is the increase in interest rates that occurred last year. We don't know but at least we are hoping that has stabilized means that there will not be any further increase in the interest rates in the coming period. Other side now we are more focused how to reduce because some opportunities like export is increasing, more focus on the ECSC, so take that benefit and reduce our interest cost and another little bit increase in interest cost is from our leased assets and depreciation is also increase like generally our life of the asset we consider 10-12 years or more for the depreciation side but for the leased assets that has also impacted on the depreciation approximately around Rs. 40 lakh to Rs. 50 lakh for this quarter. And we have also made some corrections in the life of assets because based on expectations of the utilization of those assets, so that also. Impacted around those Rs. 70 lakh to Rs. 80 lakh in this quarter.

Saurabh Jain: So, should we work with this Rs. 18 crore of depreciation on a quarterly basis for the next coming quarter?

Vimal Gupta: You can take around that, yes.

Moderator: Thank you. Next question is from the line of Yash Dalal from Sushil Financial Services. Please go ahead.

Yash Dalal: Firstly, congratulations to the Management on a better set of numbers and stronger margins and thanks for this opportunity. So, just a few questions. You mentioned the introduction of a new technology – 'Friction Stir Welding'. What exactly is this technology and what are the opportunities? Can it be a game changer and also you've received a 90-crore order for this, I believe from your commentary?

Shyam Agarwal: Friction Steel Welding is a solid-state joining process, and it has lots of application in the EV and it has lots of advantage as compared to the current processes which are in the industry right now. We have got our new order for this technology from a European company that is worth Rs. 90 crore and we are in discussion with a couple more customers for this technology. And I hope we will be in a better state to give you further updates in the next two quarters once we finalize the next orders from the new customer. But to summarize, we see a good opportunity in the field of FSW to bring new orders and improve our product mix.

Vimal Gupta: Yash, this is a great opportunity what we are seeing at this moment because we are new, and this is a patented technology that we have brought in India. And there is a huge demand for this product, but this is the initial start. So, we are not in a position to give some numbers on this, a big opportunity we are seeing here. But we will be able to give more clarity maybe in the next six months.

Rajiv Gupta: And to add to this point, basically the opportunity to increase value addition is there when we give assembly parts when we talk about EV. So, this is again one of the tools which will help us to give assembly part to our customer and fetch a higher OEM. Secondly, at this moment, these technologies are there in in Europe, in China, very limited in India. So, we have become a first mover with this technology and we are quite sure with introduction of this technology a lot of RFQs or requests will come from an existing and prospective customers which is in line with our strategy to increase our portfolio in the Carbon Neutral footprints.

Yash Dalal: That's great to hear. And just another question. JLR is setting up a Battery manufacturing plant in the UK, and of course, we supply Battery Housing and Motor Housing to them, so once this plant is set up, what are the opportunities and prospects for Alicon in this?

Rajiv Gupta: We also came across this news in last week where Tata and JLR are coming up with a plan, maybe in Central of England or maybe Spain also they're exploring. At this moment, they are focusing on the giga-factory of Battery manufacturing. One is we still will have an opportunity to supply battery housing. As you know, we have already developed this Battery Housing from a European entity where we have given a solution over a traditional way of making battery packs. Yes, one is the eAxle part what we added will demonstrate to our customer also of handling such big and critical part, add on what we are applying. So, yes, we are in close discussions and will be in close discussion to seek further opportunities under this project.

Moderator: Thank you. Next question is from the line of Suhas Naik from Kridha Capital. Please go ahead.

Suhas Naik: Congrats to the Management on a good set of numbers. I have a couple of questions. One is on the new area, there are two areas which we talked about. One, you made a brief mention of entry into Defense. So, could you talk a little bit about what is the opportunity that we are looking at in Defense, this is the first area. And the second area you talked about was on-road charging. I just want to understand where is the opportunity for us in this. Could you just give us some idea for these two areas?

Shyam Agarwal: In the Defense, we are already supplying the parts to CVRDE. That is the India Defense which is situated in Chennai and we are already supplying the road wheels for the Arjun tank. And we are quoting the new tender, which will be for the next three years and it's a big order for Alicon that is the first one. The second thing is we are already supplying the cylinder head for the defense truck to BEML and right now we are getting further tender of a much, much bigger quantity. So, which we have already quoted to them, and we are the single source for all these two companies. So, we see the revenue will increase and the orders which will get that will be for the next three to four years.

Suhas Naik: What could be the of indicative size of these orders we are talking?

Shyam Agarwal: These order values will be roughly in the range of Rs. 15 core to Rs. 20 crore per year.

Suhas Naik: The other question on a very broader scale, as you said, 52% of the orders would be coming from the newer areas, the new technologies. So, why are we only assuming a 15% growth because it looks like all the efforts put in by you over the last few years? You're at kind of an inflection point now. At least that's what I got from when I heard all the leaders in the team. So, why are we just restricting ourselves to a 15% growth?

Rajiv Gupta: Yes, rightly pointed this point from your side. What we noticed earlier, there were dominant players in the market and even the development cycles or development lead time or life of a projects were very high. Now there is a lot of competition in the market and the project life has come down so that we are factored in. We know like earlier part, which was developed will continue for 10-15 years, like for example a Maruti cylinder head which we developed for the 800 we were supplying till around 30 to 35 years. So, this has come down. Now also we're noticing some of the projects we develop and some even don't click in the SOP. So, those things we are keeping in mind and now even new technologies are coming up from ICE to EV, we know very well in EV also a lot of transformation will come. Like for example we came across one article where Toyota is working on a new technology. It's a solid-state battery which can run 1,200 kilometers in one charge and that batteries can charge in just 10 minutes, so we know very well a lot of companies are working in different adjacent technologies to grab the market and dominate the market. So, with those parameters, we are keeping our fingers crossed. These are some of the pointers.

Vimal Gupta: Opportunities are there. We are at this moment just a little bit on the conservative side and when we reach up to a very advanced stage, then we start revising our guidance.

Suhas Naik: And lastly on the margin front, we are saying 14% is what we are aiming for FY ’25-26. That's quite a good margin from where we are right now but is there a ceiling there actually in terms of because I know there is a huge operating leverage, we are just 65% utilization right now. So, operating leverage itself should take the margins to that 13% to 14% kind of a range. Apart from that you're saying we are shifting from a two-wheeler, which is a low margin, to most of the products now will be in the high margin category. So, put all this together and you're working on the latest technologies by itself and there will be better pricing. So, taking all this into consideration, is there a ceiling of 14% out there in terms of margin at peak utilization?

Vimal Gupta: As I have explained that we just work on the conservative side. So, let's see because earlier also we were not expecting that kind of margin growth in Quarter 1 and the kind of projects we are doing for the cost reductions and the change in the product mix hopefully, we should be able to deliver better.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Vimal Gupta: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the company, please feel free to contact our team of CDR India. Thank you once again for taking the time to join us on this call and we'll look forward to interacting next quarter.

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