

# ALICON CASTALLOY

## LOW P/E, HIGH GROWTH

Retail Desk

20 January 2012

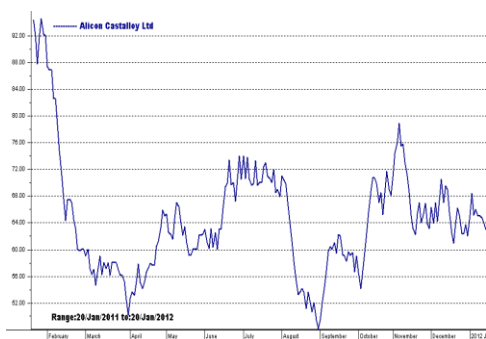
Rating	Buy
CMP (₹)	63
Target Price (₹)	90
Upside (%)	42

Key Data	
BSE Code	531147
NSE Code	ALICON
Reuters code	ENKI.BO
Bloomberg Code	ALIC IN
Sensex	16643
Face Value (₹)	5
Mcap (₹ Cr.)	69
52 week H/L (₹)	99/48
2 Wk Avg Qty	1200

Share holding, September '11	Holding %
Promoters	38.1
Foreign Collaborator	34.6
DIs	5.2
Corporates	6.0
NRIs	1.6
Public	14.5

Performance (%)	3M	6M	12M
Stock-ACL	-6.3	-11.3	-33.0
BSE 200	-3.4	-12.9	-14.2
BSE 500	-3.9	-13.6	-14.6

### Price Chart: (One-Year)


[http:// www.enkeicastalloy.co.in](http://www.enkeicastalloy.co.in)

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### Company Description:

Incorporated in 1990 as Enkei Castalloy, ACL is a joint venture between Rai and Associates, India and Enkei Corporation, Japan. ACL's main site is located at Shikrapur, Pune while the other site is at Gurgaon in North India. During FY10, ECL separated its wheel business (Enkei Wheels) in 1:1 ratio. ACL has set up 100% subsidiary in Austria, which will be used as special purpose vehicle (SPV) for acquisitions. Mfg capacity is 24, 000 tpa in India and Euro 20 Mn in Europe.

### Promoters:

Enkei Corp established in 1950 now managed by Junichi Suzuki is the second largest manufacturer of alloy wheels and aluminium castings in the world having sales of over a million wheels per month and a turnover of \$2 billion in sales. It has plants located in Japan, USA, China, Thailand, Malaysia, Indonesia, Philippines and India. Over a period of time, Enkei's line of business diversified continuing with their core strength of manufacturing aluminum wheels for automobiles, motorcycles and other products using aluminum casting and forging technology.

### Product Profile:

Blade Tip, Control Chamber, Crankcase, Compressor housing, Cylinder Head Cover-Integrated Manifold, Frame Cover, Swing Arm, Wheel Hub.

### World-Class facilities:

The strong focus on technologies has driven ACL to set up world-class manufacturing units with state-of-the-art technology at major auto hubs. Every stage of product evolution-design, development, manufacturing, assembly and quality control is carried out in a systematic manner.

### Clients:

ACL currently supplies products to various Tier I / Tier II suppliers of global OEMs in Europe and USA. Some of ACL's customers are Maruti Suzuki, Mahindra & Mahindra, Tata Motors, Honda Siel Cars, Tata Motors, Bajaj Auto, Reva, Greaves Cotton, Hero MotorCorp, Honda Scooter and Motorcycle Company. International customers include BMW, Audi, KTM, Ingersoll-Rand, John Deere, Behr Group, GE, Knorr Bremse, ZF Group, Atlas Copco, Piaggio and GWK Group.

### Key Financial: (Consolidated)

(₹ crore)

Year-March	H1FY12A	H1FY11A	FY11A	FY12E
Sales	221.9	156.2	346.3	475.0
PBIDT	23.5	20.4	42.1	49.4
Interest	5.1	4.0	7.9	10.5
PBDT	18.4	16.4	34.2	38.9
Depreciation	7.8	7.3	14.5	15.7
PBT	10.6	9.1	19.7	23.2
Tax	2.5	2.3	4.4	5.4
PAT	8.1	6.8	15.3	17.8
Equity			5.5	5.5
Reserves			59.8	77.6
Book Value (₹)			59.4	75.5
EPS (₹)	7.4	6.2	13.9	16.2
OP Margin (%)	10.6	13.1	12.2	10.4
NP Margin (%)	3.7	4.3	4.4	3.7
P/E			4.5	3.9



## Q2FY12 & FY11 Results

During FY11, sales on consolidated basis advanced by 65.1% to ₹346.3 crore but net profit rose by 14.2% to ₹15.3 crore. OP and NP margin stood at 12.1% and 4.4% against 17.3% and 6.3% respectively in the corresponding period last year. EPS stood at ₹13.9. A dividend of 20% was paid.

The debt-equity ratio as on FY11 stood at 1.3:1 whereas the value of the gross block, including ₹13 crore added in H1FY12 works out to ₹204 crore.

During Q2FY12, sales on consolidated basis advanced 42.7% to ₹119.4 crore and net profit rose 23% to ₹4.2 crore. (YoY). OPM and NPM stood at 9.5% and 3.5% compared to 12.9% and 4.0% respectively in Q2FY11.

## Quality Conscious

With a broad portfolio of manufacturing capabilities, Alicon is well positioned to produce a large variety of high-quality products for the automotive industry and others as well. Its product portfolio is designed to help & extend its reach to new customers across new boundaries to build and nurture the existing ones together with the new relationships. The state of the art group facilities ensures world class manufacturing standards & qualitative deliverable through TS 16949, ISO 14001 & OHSAS 18000.

## New Products

ACL is focusing on new technologies and innovations and is further expanding its engineering and research base through two more centers in Austria and Slovakia in addition to its existing engineering centers & world class manufacturing locations in India. ACL has also diversified and has entered into the field of non-auto industry. Also, during FY11, ACL developed 112 new products for existing and new customers.

## Acquisition & Expansion

During FY09, ACL set up new plant for Honda Manifold at Pune facilities, purchased 12 acres new land at Pathredi Rajasthan and also completed the expansion of existing plants. The entire expansion was funded through internal accruals and term loan.

ACL has successfully established a European operation through the acquisition of 'Illichmann Castalloy-GmbH' in Austria & 'Illichmann Castalloy s. r.o.' in Slovakia in May 2010. 'Illichmann' has a strong brand name in the European market along with a rich history of being a reputed supplier of aluminium components to some of the most prestigious customers in the industry. This acquisition gives Alicon a technological edge and a full product range to serve the high-end segments of the auto & non-auto industry both globally & domestically.

During FY10, ACL incurred Capex of ₹22.2 crore and expected to spend another ₹32.7 crore in FY11-12. Plans for the new plant are under finalization which is expected to come up at Pantnagar, Uttaranchal and Bangalore in Tamil Nadu.

## Automobile Growth to Continue

Backed by strong economic growth and new model launches, the Indian automobile industry has registered a 26.2 per cent growth in vehicle sales during 2010-11. During FY10 also automobile industry had registered a 26.4% growth in sales making it the second fastest growing market in the world after China. As per industry estimates, India's passenger vehicle sector will grow to around 90 lakh units and the commercial vehicle segment will exceed 22 lakh units a year by 2020.

The Indian two wheeler industry's growth rate remains intact. The period April 2010 to March 2011 has witnessed growth of 26.8% over the same period last year. During FY11, scooter segment has advanced by 32%. Three wheelers (goods) have shown a growth of 2% whereas three-wheelers (passengers) segment has grown by healthy 20%. According to ACMA's report, the two-and-three wheelers are expected to double to 22 million units by 2015 and reach 30 million units by 2020, driven by low penetration level, expanding rural sales and growth in exports.



### **Tractor Industry**

The tractor industry continued to grow at 24% during FY 2010-11. With more thrust given to agricultural growth in the budget, this number is bound to increase. Also, monsoon is expected to be normal for the second consecutive year. Further, non-agricultural use of tractors (for haulage in construction and infrastructure projects) continued to rise, resulting in higher tractor demand.

### **Low Penetration of Automobile Augurs Well**

The Indian domestic market will continue to be dominated by small cars. Replacement of commercial vehicles will boom as older vehicles get scrapped and logistics hubs emerge. As per KPMG report, vehicle penetration in India is quite small, even in comparison to other Asian countries. In passenger vehicles, for example, India has 8 vehicles per 1000 people, which is lower than countries like China and Thailand.

In 2-Wheelers also, the penetration level in India at 51/1000 is low compared to Indonesia, Malaysia and Thailand. Motorcycle sales will perform positively & projected to exceed 10 million units by 2012-13. This gap indicates the potential for growth in aluminium casting industry over a long term.

### **Off Highway Vehicles & Construction Equipment**

With the growth of economy & various efforts and initiatives taken by the Government, sectors such as Infrastructure and power have picked up. With this, off-highway & construction vehicles sales also grew up by about 10% last year and are expected to maintain the momentum in coming years.

### **Prospects**

The present size of the auto components industry in India was \$26 billion in 2011, which is <1% of the global auto components industry. The Indian auto parts industry has been growing at a CAGR 18% p.a. for past seven years.

In tandem with the surge in vehicle production, the country's auto parts industry is aiming for a fourfold growth to around ₹5 trillion (\$105 billion from \$26 billion by 2020), according to the industry lobby Automotive Component Manufacturers Association of India (ACMA). Seeing the vast potential of the automobile industry, Indian auto component industry had increased its Capex by 33% to ₹9,000 crore in 2010-11.

According to the vision document, the auto components industry will require an investment of at least Rs 1.6 trillion over the next decade to achieve the target. According to the report, jointly prepared with consultancy firm Ernst and Young, the auto parts industry is expected to contribute 3.6% to India's gross domestic product (GDP) in a decade, from 2.1% now.

### **Reserve Bank of India (RBI) 's Focus on Growth to Sustain Economic Expansion**

In the RBI Policy on 16 December 2011, in its guidance RBI clearly mentioned "From this point on, monetary policy actions are likely to reverse the cycle, responding to the risks to growth". The policy further adds "the timing and magnitude of further actions will depend on a continued assessment of growth and inflation risk factors shape up in the months ahead. This time on 16 December, RBI has kept repo, reverse repo rate and CRR unchanged.

This is an indication that in the next meet, possibly RBI would look to tamper with the policy rates in order to respond to the deteriorating growth. RBI's next meet is scheduled on Jan-24. Policy guidance may come as a relief to the industry that has been reeling under pressure because of high interest rates. The possible interest rate/CRR cut in the next policy meet would improve prospects of banking, housing and automobile sectors. As such the auto components, depended on the automobile sector, would reap benefits.

### **Opportunities**

Auto industry is one of the largest consumers of castings manufactured by ACL. ACL is one of the largest aluminium casting supplier in India. As the automobile industry worldwide is slowly and gradually shifting towards Asian low cost countries, India has emerged as one of the fastest growing passenger car markets in the world and it is the second largest two-wheeler manufacturer globally.



### **Valuation & Recommendation**

A huge proposed investment in the infrastructure like roads, railway and power generation will have multiple effects over other the growth of other industries. This increase will translate into increased demand for castings. Leveraging ACL's experience and technology, it will be able to offer wide range of industrial castings.

Due to technical expertise from Enkei, Japan, ACL currently leads the Indian market in manufacturing cylinder heads for two wheelers and 4 wheelers. It has the distinction of being a single source supplier of many critical engine parts to some of India's largest OEMs.

Today, ACL is one of the largest integrated aluminium casting manufacturing group in India offering end to end solutions across the entire value chain and delivers best-in-class Gravity & Low Pressure casting experience to its customers at the most optimal costs. ACL is having expertise into the Designing, Validation, Engineering, Casting and Machining, Assembly of Aluminium Components along with its European global foot prints in Austria & Slovakia.

Currently, ACL is entering into an exciting phase of scaling up business activities in both domestic and international markets. It is therefore, stand committed to introduce and offer new products and services all across valued customer chain, utilizing the best technology and infrastructure.

The main objective of ACL is to improve capacity utilization and productivity at all its facilities at the most optimum cost. In addition, it shall be increasing capacities by way of addition of plant, machinery & equipments and putting up plants at new locations e.g. Bangalore and Pantnagar during the coming years.

The improving outlook for the auto component industry owing to the expansion of the auto sector, outsourcing opportunity coupled with increased offtake of vehicles due to easy finance schemes give strong visibility to revenue in the coming years.

At the CMP of ₹63, the share is trading at a P/E of 3.9x on FY12E. We recommend BUY with a target price of ₹90 at which the share will trade at a P/E of 5.5.

### **Key Risk**

Slowdown in the automobile industry in the wake of high interest regime and slowing economy may affect the prospects of auto component industry.



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