

May 05, 2015

BUY

CMP ₹ 284

TARGET ₹ 420

Auto Ancillary

EARLIER RECO

HOLD	
Price	₹ 193
Target	₹ 189
Date	August 22, 2014

SHARE HOLDING (%)

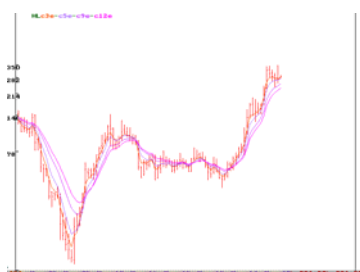
Promoters	67.7
FII	11.0
FI/MF	-
Govt. Holdings	-
Body Corporates	2.1
Public & Others	19.2

STOCK DATA

Reuters Code	ALIO.BO	
Bloomberg Code	ALIC IN	
BSE Code	531147	
NSE Symbol	ALICON	
Market Capitalization*	₹ 3125 mn US\$ 50 mn	
Shares Outstanding*	11.0 mn	
52 Weeks (H/L)	₹ 349/100	
Avg. Daily Volume (6m)	12,355 Shares	
Price Performance (%)		
1M	3M	6M
(-1)	(-9)	57

200 Days EMA: ₹ 241

*On fully diluted equity shares



EQUITY ANALYST

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Alicon Castalloy Ltd. (ACL) recently released its Q4 FY15 performance. The full year top-line was in-line with our estimate; however, the bottom-line was weaker than expected. The board of directors has recommended a final dividend of Rs.3 per share for FY15.

Q4 FY15 Result Highlights (Standalone)

- During Q4 FY15, the total income grew 23.9% YoY to Rs.1,438.6 mn. The EBITDA margin improved substantially from 12.9% in Q4 FY14 to 14.2% in Q4 FY15 due to lower raw material costs and personnel costs. On standalone basis, the Company reported an EPS of Rs.6.25 in Q4 FY15 as compared to Rs.5.47 in Q4 FY14.

Q4 FY15 Result Highlights (Consolidated)

- During Q4 FY14, the top-line grew 19.1% YoY to 1,612.1 mn while the EBITDA margin recorded a decline from 13.8% in Q4 FY14 to 12.2% in Q4 FY15. The substantial decline in employee costs and other expenses, as a percentage of revenues, was offset by significant increase in raw-material expenses, as percentage of revenues. Further, higher depreciation expenses, finance costs and tax expenditure as compared to previous fiscal led to further decline in the net margin. On consolidated basis, the Company reported an EPS of Rs.4.91 in Q4 FY15 as compared to Rs.7.49 in Q4 FY14.

FY15 Update

- During the fiscal, the company received SEBI's approval to merge casting business of Atlas Castalloy, and the merger is under process. **(We will incorporate the financial performance of the merged entity in our valuation model following the approval from high court and disclosure of complete financial details).**
- The subsidiary of the company, Illichmann Castalloy, witnessed a decline in top-line primarily due to discontinuation of some models. The Management expects to have stable growth from FY17 onwards on account of robust enquiries.
- The consolidated performance was negatively impacted by the weakening of Euro against Indian Rupee; further, the higher tax expenses which included prior year's settlements pressurized the bottom-line profitability of the company.
- The profitability was also impacted by the change of product-mix; during the fiscal, the proportion of 2W sales was higher than 4W which is a higher margin business.
- The cost of raw materials increased, as a percentage of revenue, from 47.1% in FY14 to 50.8% in FY15; as the average alloy prices increased from Rs.140/kg in FY14 to Rs.155/kg in FY15.
- Export sales have increased from Rs.210 mn in FY14 to above Rs.370 mn in FY15; Non-Auto sales have also increased from Rs.402 mn in FY14 to nearly Rs.700 mn in FY15.

OUTLOOK & VALUATIONS

Following our recent conversation with the management and recent performance, we have now revised our earnings estimates for FY16 and have also introduced our fresh estimates for FY17. We now expect ACL to register a top-line of Rs.6,562.7 mn in FY16 with an EBITDA margin of 10.7% and a net margin of 3.7%. Furthermore, we expect the company to post a top-line of Rs.7,298.1 mn in FY17 with an EBITDA margin of 11.3% and report an earnings per share of Rs.~28. Therefore, at current price the stock is available at 18.3x FY15 earnings and 10.2x FY17E earnings. Considering the growth prospects, strong order enquiries, new products and merger of Atlas Castalloy we maintain our robust outlook on the company and recommend to BUY for the revised target price of Rs.420.

KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	EBITDA Margin (%)	Net Profit (Rs mn)	Net Margin (%)	AEPS (Rs)	P/E (x)	P/B (x)	P/S (x)
FY14	5,331.2	10.0	191.1	3.6	17.4	16.3	2.9	0.6
FY15	5,794.8	9.9	170.7	2.9	15.5	18.3	2.5	0.5
FY16E*	6,562.7	10.7	240.5	3.7	21.9	13.0	2.2	0.5
FY17E*	7,298.1	11.3	305.2	4.2	27.8	10.2	1.8	0.4

*Does not include financial performance of Atlas Castalloy, the merger of which is under process

(Source: Company Data, Sushil Finance)

QUARTERLY STATEMENT

₹ mn

Y/E March	Q4 FY14	Q3 FY15	Q4 FY15
Net Sales	1,328.3	1,466.3	1,606.1
Other Operating Inc	2.5	15.7	6.1
Total Revenue	1,353.2	1,482.1	1,612.1
Raw Material Exp	522.2	784.9	772.8
Employee Cost	190.1	206.0	172.2
Other Expenditure	454.5	349.1	470.6
Exceptional Items	-	-	-
Total Expenditure	1,166.8	1,340.0	1,415.6
EBITDA	186.5	142.0	196.5
Depreciation	42.3	56.9	62.9
EBIT	144.2	85.1	133.6
Other Income	-5.1	9.9	1.3
Interest Expense	35.2	33.8	40.0
Exceptional Items	-	-	-
Tax Expense	21.5	18.6	41.0
PAT	82.4	42.6	54.0

BALANCE SHEET *

₹ mn

As on 31 st March	FY14	FY15	FY16 E	FY17 E
Share Capital	55.0	55.0	55.0	55.0
Reserves & Surplus	1005.9	1,194.2	1,389.9	1,644.0
Net Worth	1060.9	1,249.2	1,444.9	1,699.0
Total Loan funds	1080.9	1,303.4	1,372.7	1,529.1
Deferred tax liabilities	29.3	30.8	30.8	30.8
Trade Payables	847.8	972.4	1,082.0	1,182.9
Other Current Lia	399.5	365.3	385.1	407.9
Provisions	130.0	123.9	123.9	123.9
Fixed Assets	1472.9	1,652.3	1,802.2	2,008.5
Goodwill	-	-	-	-
Non-Current Investm	0.1	0.1	0.1	0.1
LT Loans & Advances	245.5	171.8	171.8	171.8
Inventories	429.9	483.6	535.8	595.8
Sundry Debtors	1229.1	1,451.4	1,625.3	1,827.2
Cash & Bank Balances	116.6	108.1	126.5	192.4
ST Loans & Advances	108.6	94.8	94.8	94.8
Other current assets	11.1	149.0	149.0	149.0
Net Deferred Tax	-	-	-	-
Total Assets	3613.8	4,111.1	4,505.6	5,039.6

Source: Company, Sushil Finance

PROFIT & LOSS STATEMENT

₹ mn

Y/E March	FY14	FY15	FY16E	FY17E
Net Sales	5289.4	5,794.8	6,519.1	7,249.3
Other Operating Inc	41.8	39.6	43.6	48.8
Total Revenue	5331.2	5,834.4	6,562.7	7,298.1
Raw Material Exp.	2511.6	2,961.0	3,347.0	3,722.0
Employee Cost	787.6	801.7	886.0	985.2
Other Expenditure	1498.4	1,495.3	1,627.5	1,766.1
Exceptional Items	-	-	-	-
Total Expenditure	4797.1	5,258.0	5,860.5	6,473.4
EBITDA	533.5	576.4	702.2	824.7
Depreciation	211.3	218.9	241.2	264.9
EBIT	322.2	357.5	461.0	559.8
Other Income	40.9	24.7	25.9	27.2
Finance Cost	111.3	131.1	143.4	151.0
Exceptional Items	-	-	-	-
Tax Expense	60.7	80.3	103.1	130.8
PAT	191.1	170.7	240.5	305.2

FINANCIAL RATIO STATEMENT

Y/E March	FY14	FY15	FY16E	FY17E
Growth Ratios (%)				
Net Sales	2.1	9.4	12.5	11.2
EBITDA	15.3	8.0	21.8	17.4
APAT	13.4	(10.7)	40.9	27.4
Profitability (%)				
EBITDA Margin (%)	10.0	9.9	10.7	11.3
Net Profit Margin (%)	3.6	2.9	3.7	4.2
ROCE (%)	15.0	14.0	16.0	16.7
ROE (%)	18.0	13.7	16.6	18.0
Per Share Data (Rs.)				
EPS	17.4	15.5	21.9	27.9
CEPS	36.6	35.4	43.8	51.1
BVPS	96.4	113.6	131.4	154.6
Valuation Ratios (x)				
PER	16.3	18.3	13.0	10.2
P/BVPS	2.9	2.5	2.2	1.8
EV/EBITDA	2.8	2.6	2.1	1.8
P/Net Sales	0.6	0.5	0.5	0.4
Turnover Days				
Debtors Days	85	91	92	92
Creditors Days	123	120	120	120
Inventory Days	30	30	30	30
Gearing Ratio				
Total Debt- Equity	1.0	1.0	1.0	0.9

Please Note that our technical calls are totally independent of our fundamental calls.

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Holding Disclosure

Analyst Stock Ownership	Yes
Stock traded in Last 30 days	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	Yes
Sushil Financial Services Pvt. Ltd and Group Directors Holding	Yes
Broking Relationship with the company covered	No