CRISIL Ratings

Rating Rationale

January 18, 2023 | Mumbai

Alicon Castalloy Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed; CP Withdrawn

Rating Action

Total Bank Loan Facilities Rated	**Rs.300 Crore**
Long Term Rating	**CRISIL A/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Short Term Rating	**CRISIL A1 (Reaffirmed)**

Rs.100 Crore Commercial Paper	**CRISIL A1 (Withdrawn)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Alicon Castalloy Limited (ACL) to **'Positive'** from 'Stable' while reaffirming the rating at '**CRISIL A**'. The rating on the short-term bank facilities has been reaffirmed at 'CRISIL A1'. Further, CRISIL Ratings has **withdrawn** its rating on the commercial paper worth Rs 100 crores at the request of the client as the paper has not been utilised. This is in line with the withdrawal policy of CRISIL Ratings.

The revision in outlook for ACL is driven by an expected improvement in the financial risk profile of ACL, aided by improvement in profit levels, strengthening of capital structure and debt protection metrices .

ACL registered a strong 50% year-on-year growth in revenue during the first half of fiscal 2023 , driven by healthy offtake from original equipment manufacturer (OEMs) especially in the passenger vehicle (PV) segment while the two-wheeler segment also recovered post degrowth in fiscal 2022, new orders and increase in wallet share with major customers. The growth was on a relatively lower base given the Covid-19 pandemic-induced slowdown during the first quarter of fiscal 2022. This comes on the back of a healthy 27% on-year growth witnessed during fiscal 2022, driven by uptick in demand in the automobile (auto) industry during the second half of fiscal 2022 coupled with price increase.

Operating margin remained healthy at 11.1% for the first half of fiscal 2023 , compared to 8.7% during the corresponding period of the previous fiscal, owing to higher capacity utilization and ability to pass on input cost increase though with a lag. For fiscal 2022, profitability improved by 64 basis points to 10.5% in comparison to fiscal 2021, despite hike in input prices due to operating leverage benefit with higher volumes, adoption of several cost-optimization techniques and with increase in proportion of sales to PV and commercial vehicle (CV) segment.

Revenue should grow by 8-14% over the medium to long term, driven by sustained demand growth in the auto sector, monetisation of new orders and contribution from its existing orders book. The business risk profile will be supported by healthy segmental diversity, diversified product portfolio and established relationship with the clientele. Benefitting from change in segmental mix towards PV and CV segments, operating margin should improve to 11-12% over the medium term.

The financial risk profile is supported by strong capital structure, healthy debt protection metrics and comfortable liquidity. With infusion of equity worth Rs 110 crore through qualified institutional placement and preferential allotment and utilization of the funds towards repayment of debt, adjusted networth and gearing stood at Rs 416 crore and 0.63 time, respectively, as on March 31, 2022. ACL plans to carry out capital expenditure (capex) of about Rs 270 crore during fiscals 2023 to 2026, which is expected to be funded by a prudent mix of internal cash accrual and debt. Despite the external debt increasing, gearing is expected to remain comfortable at 0.7 time over the medium term, with debt/earnings before interest, depreciation, tax and amortisation reducing to 1.1-2.0 times over the medium term from 2.3 times in fiscal 2022. Debt protection metrics is expected to remain healthy, with interest coverage ratio to improve to ~6.00 times in fiscal 2023 against 3.84 times in fiscal 2022.

Liquidity should further improve, with cash accrual projected at Rs 90-140 crore per annum over the medium term (Rs 77 crore in fiscal 2022) combined with cash surplus of Rs 11 crore as on September 30, 2022.

The ratings continue to reflect the established market position of ACL in the a luminium die-casting auto components sector, driven by a diverse clientele and longstanding customer relationship. The ratings also factor in healthy financial risk profile because of low gearing, above-average debt protection metrics and healthy liquidity. These strengths are partially offset by moderately large working capital requirement due to increasing exports and growth in new business, and vulnerability to volatility in raw material prices, and susceptibility to demand in the auto industry, mainly two-wheeler and passenger car segments.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of ACL and its wholly-owned subsidiaries, Alicon Holding GmBH, Austria-based Illichmann Castalloy GmbH and Slovakia-based Illichmann Castalloy S.R.O. That is because all the entities, collectively referred as ACL, have significant operational linkages and are under a common management.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position in aluminium casting auto-component sector

ACL has a diversified product profile in the aluminium casting business, including cylinder heads, intake manifolds, engine support brackets, and compressor housings. It has an established market position in the aluminium casting auto component sector, driven by established client relationship and operations in India, Austria, and Slovakia. Clientele includes major auto OEMs such as Honda Motorcycle & Scooter India, Hero Motor Corp Ltd, Bajaj Auto Ltd ('CRISIL AAA/Stable/CRISIL A1+'), Maruti Suzuki India Ltd ('CRISIL AAA/Stable/CRISIL A1+'), and Mahindra and Mahindra Ltd ('CRISIL AAA/Stable/CRISIL A1+'). Increase in business from new customers in the auto and non-auto segments over the past three years further improved customer diversity, with the top five customers contributing ~40% in fiscal 2022 (46% in fiscal 2021); contribution from the new business may also increase in the coming years. Recovery in the auto sector to continue, with revenue likely to increase 30-35% year-on-year in fiscal 2023, with a healthy growth in fiscal 2024.

Diversified revenue profile

ACL has diversified geographic profile, in terms of global business and domestic sales with 22% contribution from global business in the first half of fiscal 2023. Further, it has diversified clientele base with none of the customers contributing more than 15% to the revenue in fiscal 2022. Further, increasing sales from electric vehicle products and non-auto sales aid revenue diversity. Improvement in revenue and operating margin may be attributable to shift in the focus from the two-wheeler segment to PV and CV segments along with ramp-up of new orders from existing and new customers with a strong, new product pipeline.

Healthy financial risk profile

The financial risk profile is marked by strong capital structure and gearing maintained at comfortable levels owing to prudent capex funding. Backed by steady revenue growth and profitability, cash accrual may increase to Rs 90-140 crore in fiscal 2023 from about Rs 77 crore in fiscal 2022. The company is also likely to fund planned capex with a prudent mix of debt and internal cash accrual. Debt protection metrics should remain healthy, with interest coverage and net cash accrual to total debt ratios of ~6.0 times and 0.3 time, respectively, in fiscal 2023. Debt/EBITDA is expected at 2.05 times in fiscal 2023 and will further reduce to below 1.2 times by fiscal 2026 with improving operating performance.

Weaknesses:

Large working capital requirement, led by increasing exports and growth in new business

Operations have been working capital intensive, reflected in gross current assets, receivables and inventory all sizeable at 185 days, 139 days, and 50 days, respectively, as on March 31, 2022. Debtors have increased gradually from 72 days in fiscal 2015. However, with equity infusion in July 2021, dependence on short-term borrowing reduced and liquidity improved. Return on capital employed was impacted in the past couple of years due to weakening profitability and delay in ramp-up of capex done in recent years; however, it started witnessing improvement with recovery in volumes and margin and is expected at 13-16%.

Vulnerability to volatile raw material prices

The key raw material used for the manufacturing part is aluminum, which comprises 50-60% of total revenue. A very small portion (2-3%) of the total aluminium cost is imported due to requirement of specific grades/quality. Being a commodity, the prices are volatile in nature. Given that most customers are OEMs, ACL can partly pass on the increase in input rates but with a lag.

Susceptibility to demand in auto industry mainly two-wheeler and passenger car segments

High focus on research and development, wide product portfolio and faster adoption of new technologies are expected to increase the share of business with customers over the medium term. Largest customer for ACL contributes about 15% of total revenue, indicating healthy customer diversity. While revenue benefits from good customer diversity, it remains exposed to risks related to cyclical demand patterns inherent to the auto industry, and ability of the OEMs to sustain their market share in the domestic and overseas markets. Therefore, the sustenance of demand from two-wheeler and passenger car segments, contributing 48% and 28% of domestic revenue in fiscal 2022, respectively, will be a key monitorable.

Liquidity: Strong

With improving profitability, cash accrual may increase to Rs 90-140 crore over the medium term, as against yearly maturing debt of Rs 40-45 crore. Liquidity should remain supported by unutilized bank limit of Rs 60-70 crore plus cash and equivalents of Rs 11 crore as on September 30, 2022.

Outlook: Positive

The business risk profile of ACL will continue to benefit from the recovery in demand from auto sector and its strong order book. Revenue is expected to grow at a healthy 8-14% over the medium term starting from fiscal 2024 along with healthy margin, supported by its diversified product mix and established customer base. The financial risk profile is expected to remain healthy, supported by steady growth in cash accrual and modest capex.

Rating Sensitivity factors

Upward factors

- Sizeable increase in revenue and profitability due to recovery in demand, resulting in cash accrual of Rs 114-140 crore
- Prudent working capital management and improvement in debt protection metrics

Downward factors

- Continued high bank limit utilization (above 90%) putting pressure on liquidity position
- Sharp decline in operating performance, leading to cash accrual less than Rs 45 crore
- Large, debt-funded capex/acquisition, or increase in the working capital requirement constraining any improvement in the TOL/TNW ratio and leading to deterioration in debt protection metrics

About the Company
ACL was established as Enkei Castalloy Ltd (Enkei Castalloy), a joint venture between Pegasus Castalloy Ltd (an Indian company that manufactures cast-aluminum auto components since 1990) and Enkei Corporation (in Japan; one of the largest manufacturers of alloy wheels in the world). Owing to sustained losses in the alloy wheels division, the promoters hived it off as a separate company, Enkei Wheels Ltd, and retained the casting business with effect from April 1, 2009. Enkei Castalloy was renamed as ACL on December 27, 2010.

ACL manufactures aluminium castings including cylinder heads, support brackets, intake manifolds, crankshafts, and engine brackets, for use in the auto industry. Clients include key Indian auto OEMs as well as auto and engineering OEMs in the European market through its subsidiaries. ACL has four manufacturing units at Shikrapur, (Pune, Maharashtra), Chinchwad, (Pune, Maharashtra), Binola (Haryana) and Slovakia (Europe).

Key Financial Indicators

Particulars for period ended March 31	Unit	2022	2021
Revenue	Rs crore	1079	849
Profit after tax (PAT)	Rs crore	24	-2
PAT margin	%	2.2	-0.2
Adjusted debt/adjusted networth	Times	0.63	1.17
Interest coverage	Times	3.84	2.32

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	200	NA	CRISIL A/Positive
NA	Letter of credit & bank guarantee	NA	NA	NA	10.7	NA	CRISIL A1
NA	Term loan	NA	NA	Nov-26	59.9	NA	CRISIL A/Positive
NA	Term loan	NA	NA	Oct-23	29.4	NA	CRISIL A/Positive

Annexure: Details of rating withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels
NA	Commercial Paper	NA	NA	7-365 days	100	Simple

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Illichmann Castalloy GmbH	Full	Subsidiary
Illichmann Castalloy s.r.o.	Full	Subsidiary
Alicon Holding GmbH	Full	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	289.3	CRISIL A/Positive		--	20-01-22	CRISIL A/Stable	27-05-21	CRISIL A/Negative	14-05-20	CRISIL A/Negative	CRISIL A/Negative
			--		--		--		--		--	CRISIL A/Negative
Non-Fund Based Facilities	ST	10.7	CRISIL A1		--	20-01-22	CRISIL A1	27-05-21	CRISIL A1	14-05-20	CRISIL A1	CRISIL A1
Commercial Paper	ST	100.0	Withdrawn		--	20-01-22	CRISIL A1	27-05-21	CRISIL A1	14-05-20	CRISIL A1	CRISIL A1

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities			
Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	50	Bajaj Finance Limited	CRISIL A/Positive
Cash Credit	40	Bank of Maharashtra	CRISIL A/Positive
Cash Credit	25	IDFC FIRST Bank Limited	CRISIL A/Positive
Cash Credit	30	Kotak Mahindra Bank Limited	CRISIL A/Positive
Cash Credit	55	State Bank of India	CRISIL A/Positive
Letter of credit & Bank Guarantee	1.8	Bank of Maharashtra	CRISIL A1
Letter of credit & Bank Guarantee	7.2	State Bank of India	CRISIL A1
Letter of credit & Bank Guarantee	1.7	State Bank of India	CRISIL A1
Term Loan	59.9	HDFC Bank Limited	CRISIL A/Positive
Term Loan	29.4	IDFC FIRST Bank Limited	CRISIL A/Positive

This Annexure has been updated on 17-Mar-2023 in line with the lender-wise facility details as on 14-Mar-2023 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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