Operator: Ladies and gentlemen, good day and welcome to Wheels India Limited Q2 and H1 FY27 earnings call, hosted by ICICI Securities. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. I now hand the conference over to Mr. Ronak Mehta from ICICI Securities. Thank you, and over to you.

Ronak Mehta – ICICI Securities: Thank you. Good afternoon, everyone. On behalf of ICICI Securities, we would like to welcome you all to Wheels India's Q2 FY27 earnings conference call. Today, we have with us from the management team Mr. Srivats Ram, Chairman and Managing Director, and Mr. P. Ramesh, Chief Financial Officer. As always, we will start the call with brief opening remarks from the management team, and then we will proceed with a Q&A session. Thank you, and over to you, sir.

Srivats Ram – Chairman and Managing Director: Good afternoon, everyone. I am Srivats Ram, and I am the Chairman and Managing Director of Wheels India. This is a Q2 earnings call, and I am happy to say that Wheels India in the second quarter showed a 36% revenue increase from 1,179 crores to 1,598 crores, and net profit increased from 27.8 crores to 53.4 crores on a standalone basis.

The quarter saw major growth coming from earthmover wheels, which are largely exported; the air suspension business, which is primarily domestic; and, of course, the domestic auto industry, which performed very well in the second quarter.

Broadly speaking, looking forward, while demand for most segments remains strong, there is some concern about inflation. In the second half, from the third quarter onwards, you will start seeing some growth slowing down because of the higher base effect of GST 2.0, which happened in the second half of last year. But we are still seeing strong demand.

We also need to tell you that during this quarter, we raised funds of 430 crores—180 crores through a preferential issue and 250 crores through a QIP—to reduce the debt. We raised the money and reduced the debt by the end of September. Demand seems strong, and immediate prospects seem quite bright.

With that, I will take you through our presentation. Ramesh, we can go through the Q2 numbers. Do you want to move through the Q2 numbers and then reiterate the strategy?

P. Ramesh – Chief Financial Officer: Sure, sir. Sure, sir.

Srivats Ram – Chairman and Managing Director: If you look at the half-year period, there was 26% growth in revenues and 66% growth in profit. While we did reduce debt, we did it on the second-last day of the quarter. As a result, [laughs] none of that cost advantage has actually come through. But demand was very strong across segments, and we ended up with an EBITDA of 8% and a PBT of 4%.

Next slide.

On a consolidated basis, revenue growth was even higher. On a quarterly basis, it was 36% growth. PAT growth was 90%. EBITDA was 8.36%, with a PBT of 4.6%.

Report is AI-generated and may contain inaccuracies.

On a half-year basis again, growth was 26%, and these numbers cover the consolidated results for H1. Next slide.

On segment-wise reporting, auto is very strong. In auto, let me say that we include car, truck, tractor, earthmoving wheels, and air suspension systems. These have shown very strong growth of almost 40% year-on-year. I also need to tell you that the largest part of the growth came from earthmoving wheels and air suspension, with the regular wheels segment also contributing.

The industrial segment had more muted growth. Here, we have sub-segments such as fabrication for construction, which was very slow because construction equipment manufacturing in the country was relatively slower. The windmill sector was also slightly slower. This is more a matter of seasonality, and it will pick up immediately from the third quarter onwards.

These are the two factors. The other point I need to mention is that the industrial components sector is relatively more skill-based for us. Since we are expecting higher volumes in the third quarter, we need to hire people in advance. That is another reason why EBIT is relatively lower despite some growth, because we have to recruit people for the ramp-up.

Next slide.

This also gives you a sense of EBIT on a half-yearly basis.

In terms of capex, we are looking at 400 to 450 crores. Capex is being invested both in the traditional steel wheel business for trucks and tractors and in cast aluminum wheels, where we are undertaking a fairly steep ramp-up. A significant portion is also related to the windmill sector, which is seeing some investment.

Go to the strategy slide briefly. Actually, go to the metrics. I am sorry. Please go to the previous slide. As you can see, our key ratios are coming down, and debt-to-EBITDA is reaching reasonable levels. Debt-equity has also dropped with the capital infusion. Next slide. Next.

Annualized ROCE and return on net worth are reasonably decent. Next.

To take you through the company's growth strategy, we are global leaders in both wheels for construction equipment and wheels for agricultural tractors. We continue to focus on growing these segments both in India and overseas.

The second segment in which we are strong is the fabrication and machining of large castings for windmills. In the fabrication segment, we continue to make investments. We are a large supplier to the windmill sector globally, specifically the non-Chinese windmill sector. The machining business is also continuing to grow.

We believe the hydraulic cylinder business has a lot of promise. It is currently at a fairly low base for us. Therefore, the opportunity to ramp up is significant, and we believe this business can grow faster than the traditional business.

As I mentioned earlier, cast aluminum wheels will continue to see investment from us as we see increased conversion toward aluminum wheels.

Report is AI-generated and may contain inaccuracies.

The air suspension business has seen significant growth, and we continue to invest to ensure that we meet our customer requirements.

Lastly, the company is focused on working capital optimization and managing through free cash flows. Predominantly, we would look at funding capex through accruals and trying to keep the debt under control.

There is also a lot of effort on cost optimization. We have internal meetings every 2 weeks to drive that.

With all this, we believe that we can continue our growth trajectory and continue to maintain the types of ROE and ROCE numbers that you see in front of you.

That is the presentation. I think we are now open to any questions that you may have.

Operator: Thank you very much. We will now begin the question-and-answer session. To ask a question, please click on the raise-hand icon available on your toolbar or on the Q&A tab available on your screen. Kindly turn on your microphone when the operator announces your name. You may also post text questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We will take our first question from Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari – Alpha Accurate Advisors: Thank you, ma'am. Thanks for this opportunity. Good afternoon, sir, and congratulations on the improvement in your profitability. It is good to see that.

When you look at the next 2 years, I wanted to get a brief guideline from your side. How do you look at the revenue growth of both businesses? More importantly, how do you see the margin trajectory from the current year toward improving to the target of double-digit margins? What are the various steps required, and where are we in that cycle? Thank you, sir.

Srivats Ram – Chairman and Managing Director: Thank you, Rajesh. As you are aware, you are right that we are looking at double-digit EBITDA margins. We are around 8% at the moment.

The way we look at it is that we have certain businesses that are now operating at sub-scale or where capacity utilization is relatively low. If I can name the businesses, they include cast aluminum wheels and hydraulic cylinders. We also have relatively underutilized capacity in some of the tractor businesses. Air suspension is another area where we are looking at adding capacity.

Essentially, when you take sub-scale businesses and scale them up, you see an EBITDA-positive and PBT-positive impact. Therefore, the turnaround becomes much faster.

Our strategy, as I have mentioned earlier, is basically to grow these 5 different business areas, and everything else depends on the market.

When you talk about market growth going forward, there is the inherent market growth, which honestly is not within our control. All we can do is service customers when they have demand growth. I do not have visibility on how the Indian auto market is going to grow, [laughs] honestly, even beyond the third quarter. I have visibility for the third quarter. Beyond that, I am not sure how

Report is AI-generated and may contain inaccuracies.

it is going to grow, but however much it grows, we will grow along with it.

The question is really how we grow faster than the market. That is why we have this strategy, and we have detailed plans for how we can ramp it up. We believe that if we focus on this strategy for the next at least 3 years, you will see substantial improvement both in the margin profile, as you mentioned, and in terms of the topline.

I hope I have answered the question suitably.

Operator: Rajesh, are you through with your question?

Rajesh Kothari – Alpha Accurate Advisors: No. Thank you for answering one part of the question, but one part is still unanswered in terms of growth. One is, of course, market-linked growth. But there is also higher content per vehicle, export growth opportunities, particularly on the industrial side of the business, the wind turbine side of the business, and alloy wheels.

If I look at most of the other competitors, they are also reporting exceptionally strong numbers. Keeping that in mind, what kind of growth do you think would be reasonable to assume over the next 1 to 2 years?

Srivats Ram – Chairman and Managing Director: Let me address this category-wise. Construction and industrial-size wheel demand will continue to grow. It will probably grow over a 2-year period, but it is already growing quite fast, and we will continue to grow that business.

The windmill business is also winning new orders, but again, it is an export-oriented business, so it will grow over the next 1 to 2 years.

You are right that the aluminum wheel business is growing fast. To give you an idea, whatever we did in the second quarter, we will definitely look at doubling by the fourth quarter. We are seeing a fairly steep ramp-up, but for us, it is happening more in the fourth quarter rather than immediately. There is some build-up immediately, but the major volumes will come during that period, and we see this continuing going forward.

In fact, while we already have approved capex, we have gone ahead with the next phase of capex as well, so we are extremely bullish there.

Another business that has grown substantially and ahead of capacity is the air suspension business. We are seeing volume growth [crosstalk] of 50% over the previous year, and we see this continuing. We will continuously look at increasing capacity both at our end and at the supplier end.

So, I would say that these are the areas where, strategically, we are seeing growth in the industrial business, perhaps to some extent on the windmill side. But the areas where we are seeing increasing volumes this year itself, let alone next year, are cast aluminum wheels and air suspension.

Rajesh Kothari – Alpha Accurate Advisors: Sure. Great, sir. Thank you so much, and I wish you all the best. Thank you, sir.

Srivats Ram – Chairman and Managing Director: Thank you, Rajesh.

Report is AI-generated and may contain inaccuracies.

Operator: Thank you. The next question is from Ronak Mehta from ICICI Securities. Please go ahead.

Ronak Mehta – ICICI Securities: Thank you for this opportunity. I have 2 questions. One is on the price pass-through side. I believe the last time—

Ronak Mehta – ICICI Securities: You mentioned your negotiations with customers for inflationary cost pass-through. Where are we in that journey, and by when can we expect those inflationary costs to reflect in the numbers? That is my first question.

Management: Raw material costs are reflected almost immediately, or in the worst case, a quarter after the actual escalation. There is a pass-through, and there is an agreement with the customer that the pass-through on raw materials happens automatically.

This year, of course, with the West Asia crisis, fuel costs have also increased substantially. Claims have been made with customers. Some customers have settled, while some are in the process of settling.

That exercise is already well underway. We expect to get closure on that probably by the third quarter.

We do not see any major impact there. It has not really impacted our results in terms of profitability in Q2, and it will not impact Q3 either.

Ronak Mehta – ICICI Securities: Is it fair to assume that from the third quarter, overall margins can improve because of those pass-throughs that are not there in the current margins?

Management: Yes and no, because it also depends on which segment grows and on the relative profitability across segments. But broadly speaking, what you are saying is right.

Ronak Mehta – ICICI Securities: Perfect. Also, on the break-even side, I believe you mentioned last time that in the alloy wheel segment, with the ramp-up in volumes, there could be break-even at both the EBITDA and PAT levels, which is not the case as of now. By when can we expect that break-even to happen, and at what scale or on what timeline?

Management: To give you an idea, I had earlier mentioned that around 40,000 wheels per month is our break-even level. We are already at that level. Even this month, we are at approximately that level.

The only other issue is that we are also holding some older stock of material which could not be shipped during the West Asia crisis. That stock has just arrived at our locations.

We believe that from December onwards, we should become PBT-positive, leaving aside EBITDA. We are already EBITDA-positive. I am really talking about becoming PBT-positive in that business, which should happen from December onwards.

Ronak Mehta – ICICI Securities: Perfect. Thank you, sir. That is all from my side.

Operator: Thank you. The next question is from Pranjal Soni, an individual investor. Please go ahead.

Report is AI-generated and may contain inaccuracies.

Pranjal Soni – Individual Investor: Hello, am I audible?

Management: Yes, please go ahead, Pranjal.

Pranjal Soni – Individual Investor: My question is related to the alloy wheel business. I wanted to understand what capex is required to add 1 lakh wheels of alloy capacity. Also, what asset turnover can we expect from this business at optimal utilization?

Management: If you look at it, we currently have a capacity of 80,000 wheels a month. We are adding capacity up to 130,000 wheels a month by the end of March.

Ramesh, what is our capex for moving from 80,000 to 130,000, which was the number discussed at the previous July board meeting? Do you have that number?

Ramesh: Sir, it is about 200 crores, sir.

Management: Yes, roughly 200 crores. So, 200 crores is what we feel is required for approximately 1 lakh wheels. This is actually the addition from 80,000 to 130,000, correct? Is the 80,000 to 130,000 figure 2 lakh, or are you talking about including 170,000, Ramesh?

Ramesh: Including 170,000, sir.

Management: Yes. So, to answer your question, for adding about 90,000 wheels a month—we are talking about more than 1 million wheels—we need about 200 crores. This assumes that it is not a greenfield site and that the addition is being made at an existing site. That is probably the equation.

Pranjal Soni – Individual Investor: Okay, understood.

Management: In terms of asset turnover, you asked that question. Take 5,000 rupees per wheel. So, it would be 90,000 multiplied by 5,000 multiplied by 12.

Pranjal Soni – Individual Investor: Okay. My next question is related to the technical agreement with Topy. Is it a royalty-based arrangement linked to sales, or is it a one-time technology transfer fee?

Management: I understand that it is a royalty-based agreement based on what they are doing. Ramesh, you can correct me if I am wrong. It is a royalty-based agreement based on the improvements they are suggesting. We have monthly review meetings and all of that. So, all of that is good.

Pranjal Soni – Individual Investor: Okay. My last question is whether you can shed some light on the industrial business. The industrial business is currently your lowest-margin segment, at around 3%. I wanted to understand the rationale if we are doing 100 crores of capex out of 450 crores for FY27. I believe 50% of the capex is being spent on the industrial business. If I take 200 crores for alloy wheels, the rest is for the industrial business. What growth and margin trajectory do you see in the industrial business compared with the alloy business?

Management: Pranjal, first of all, that assumption is incorrect. Ramesh, if we look at the industrial sector as defined—windmill, hydraulics, and fabrication—what is the capex we have planned for that out of the 400 crores?

Report is AI-generated and may contain inaccuracies.

Ramesh: It would be about 70—

Management: 100 crores? Something like that?

Ramesh: Yes, sir, close to 100 crores, sir.

Management: First of all, Pranjal, to correct you, out of the 400 to 450 crores, we have about 100 crores for the industrial business.

Regarding the industrial business and why it is not profitable, that question was asked. If I look at the industrial business, I break it into 3 segments.

The first segment is the windmill business, which is profitable even today. It has a double-digit EBITDA margin, and we do not have any issues there.

The second business is the hydraulic cylinder business, which is currently a low-single-digit business. Scaling up will happen from the fourth quarter. We are making some layout changes. From January onwards, we will be in a position, first, to increase our output, and second, we believe that we will start supplying some of the international partners we have signed on. That business will definitely grow and become more profitable.

The third business related to the industrial segment is fabrication for the construction industry. The construction industry in India has been at a low ebb, and construction typically does not happen during the monsoon season. The monsoon season is now over. Customers are coming back with new models, and we are seeing an increase in that business. It should become profitable in the third and fourth quarters.

With that, you will start to see the industrial segment also showing an improvement in profitability.

Pranjal Soni – Individual Investor: What margins do you expect from this industrial business going forward after 3 or 4 quarters?

Management: I would expect it to be at double-digit margins.

Pranjal Soni – Individual Investor: Okay, understood. Where is the rest of the capex being spent? If we see 450 crores, 100 crores is for the industrial business and 200 crores is for alloy wheels. What about the remaining 100 to 150 crores?

Management: The balance is for the conventional business of steel wheels for cars, trucks, tractors, and construction equipment, and a little bit for air suspension. That is where the capex has gone. It is all for ramping up the existing businesses.

If you ask which segments, it is for cars, trucks, tractors, construction equipment, and air suspension—for all of them.

Pranjal Soni – Individual Investor: Okay, understood.

Management: That accounts for the 450 crores. About 100 to 150 crores is going into the traditional conventional business.

Report is AI-generated and may contain inaccuracies.

Pranjal Soni – Individual Investor: Okay. Just one more question. Could you share your current market share in India in alloy wheels and steel wheels? How do you see it moving over the next 2 to 3 years?

Management: Ramesh or Mukunda, can you talk about the steel wheel market share?

Ramesh: Sir, our share of SOP is close to 50% in steel wheels, if you look at CV and tractors together.

Management: I think she means passenger cars. What about passenger cars?

Ramesh: Passenger cars would be about 35%, sir, in steel wheels.

Management: The 35% takes into account the fact that 40% of the market is aluminum. Including that 40%, we have a 35% market share in steel passenger car wheels.

If you look at aluminum wheels, we are a late entrant, so we are a negligible player at the moment. But we do believe that we can reach approximately 10% to 15% market share from the current levels, which are probably in the low single digits. We believe that we can reach this level by the same time next year, based on the businesses that we have—

Pranjal Soni – Individual Investor: Okay, sir. That answers my question.

Management: Thank you.

Operator: The next question is from Sahil Jain from Ashvi India Holdings. Please go ahead.

Sahil Jain – Ashvi India Holdings: Hi, am I audible?

Management: Yes, please go ahead, Sahil.

Sahil Jain – Ashvi India Holdings: Thank you for the opportunity. I wanted to ask, considering that the majority of our business is a conversion-type business, except for the products that we sell, is there some EBITDA-per-tonne metric that you track? Could you provide us with that, sir? Or is my understanding incorrect?

Management: Our business is very varied because it includes different products and different sectors. We make a huge variety of products. Therefore, tracking it on a per-metric-tonne basis does not make sense.

Sahil Jain – Ashvi India Holdings: Understood, sir.

Management: That basically answers it. We do not track that. What was the first half of your question? I am sorry, could you repeat it?

Sahil Jain – Ashvi India Holdings: I thought that the majority of the business might be conversion business, such as creating aluminum wheels for passenger vehicles.

Management: No. We buy steel, we buy aluminum, and we convert it. The only business of ours that is a conversion business in that sense is the machining of windmill hubs. That is something like a

Report is AI-generated and may contain inaccuracies.

10-crore-per-month business at the moment.

Sahil Jain – Ashvi India Holdings: Understood, sir. Is my thinking correct? You mentioned that you sell one aluminum wheel for 5,000 rupees on average. If you produce 100,000 wheels a month, which is close to 1.2 million wheels a year, that would be 600 crores, if I am calculating correctly.

Since the company is currently at EBITDA break-even, or perhaps PBT break-even, how much EBITDA can this alloy wheel business generate at the optimal level? What can the aluminum wheel business contribute?

Management: Correct.

I think 10% to 12% is a reasonable number to look at. Once it reaches that scale, it should be at that level.

Sahil Jain – Ashvi India Holdings: Understood, sir. So, it would be 130,000 a month, but I am considering 100,000. With that being approximately 10% of revenue, and perhaps a lower share by that time, how margin-accretive can this business become for us? Could it contribute at least 1% or more than 1% at a consolidated level?

Management: I imagine that it becomes a 600-crore business. It also depends on how the rest of the business grows. This business will become a double-digit EBITDA business at that point, which is probably sometime in the first quarter of next year in our view. We will be at this 100,000 level, and we should definitely be looking at numbers closer to that.

Its percentage of the rest of the business is relative. But let me also tell you that the largest growth opportunity we see from now until Q1 of next year is possibly this area. Therefore, it will account for a significant share of the growth we see.

Sahil Jain – Ashvi India Holdings: Understood, sir. The margin-accretive businesses I am thinking of are alloy wheels, the machining business, the hydraulic business, and the air suspension business. All of these businesses are—

Management: The construction wheel business is also a very profitable global business.

Sahil Jain – Ashvi India Holdings: Okay, the construction wheel business. Does that also require aluminum, sir, or is it some other type of metal?

Management: No, steel. It is steel.

Sahil Jain – Ashvi India Holdings: Could the capacities we have be fungible in terms of dimensions? Can the same machine produce wheels for a passenger vehicle and for a construction vehicle?

Management: To some extent, passenger vehicle equipment can extend to light commercial vehicles, small commercial vehicles, and perhaps small tractors. But nothing beyond that. The other wheels are much heavier-duty and cannot be made on the same equipment.

Sahil Jain – Ashvi India Holdings: Okay. And by any chance, sir, can you—

Report is AI-generated and may contain inaccuracies.

Operator: I request you to rejoin the queue, please, as we have participants waiting for their turn. Thank you.

Sahil Jain – Ashvi India Holdings: Understood, ma'am. Thank you.

Operator: The next question is from the line of Rajakumar Vaidyanathan from V Rajakumar. Please go ahead.

Rajakumar Vaidyanathan – V Rajakumar: Good evening. Can you hear me?

Operator: Yes.

Management: Yes, Rajakumar, please go ahead.

Rajakumar Vaidyanathan – V Rajakumar: Thanks for the opportunity, and congratulations on the good set of numbers. I have 3 questions.

The first question is on the Bosch JV. I want to know the stake, because the press release—

Rajakumar Vaidyanathan – V Rajakumar: It says that TSF Group will hold a 50% stake. I want to know what the stake of Wheels India will be. Also, if you could provide more detail on the proposed investment and some other details, that would be helpful.

Management: We signed a memorandum of understanding to establish a joint venture. The joint venture is currently going through Competition Committee clearances in Europe, after which it can be announced.

Broadly speaking, we are looking at an investment of about 100 crores. Wheels India's stake will be 20%. The structure will be 20% Wheels India, 30% Brakes India, and 50% Bosch India.

We are largely looking at manufacturing air management systems for commercial vehicles for the European and North American markets. Wheels India's product in this joint venture will be electronic air suspension.

Rajakumar Vaidyanathan – V Rajakumar: Are any of those products currently being produced? The reason I ask is whether you will be contributing any of the existing business to the JV.

Management: No, it will only be fresh business. We have made it clear that prior knowledge and prior products will not be included. We are looking only at fresh products.

Rajakumar Vaidyanathan – V Rajakumar: Understood, sir. The second question is on the tractor wheel segment. Given the El Niño situation both domestically and globally, I wanted to know the demand outlook and the outlook for Wheels India with respect to this segment.

Management: I asked the same question of our largest tractor customer earlier this year and [laughs] he said, “Boss, if I am able to sell the tractors, I will continue to make the tractors.”

It has taken us somewhat by surprise that the tractor market saw such good growth in the first half. That said, the monsoons have been poor in areas such as Maharashtra, Rajasthan, Karnataka, and

Report is AI-generated and may contain inaccuracies.

Andhra Pradesh. At least 3 of these are substantial tractor markets.

We do believe that in Q4, when the season returns, there will be some impact from that. However, the northern part of the country has seen decent rainfall, so demand there may continue to be high. There may be some moderation, but on a year-on-year basis, we do not expect it to decline. We expect growth to slow down.

Rajakumar Vaidyanathan - V Rajakumar: And globally as well?

Management: Globally, it is very different because it is a commodity that follows commodity cycles, and the global cycle is currently down. It is entirely dependent on how commodities move globally. We are not seeing any upswing there.

We are just entering that market. As we add products, when the upswing happens, we should definitely benefit. But there is nothing positive at the moment globally, other than the fact that we are winning business.

Domestically, I do feel that growth will taper off somewhat and become subdued, but we have to wait and see. January, February, and March will give us an idea of how the market is headed.

Rajakumar Vaidyanathan - V Rajakumar: The last question is on cash flows. I see that the money you raised has predominantly gone toward funding working capital. Why did we have negative cash flow in the first half? Is it an aberration, or do you expect pressure on working capital to remain for some more time?

Management: It is slightly an oddity because September saw a sudden and substantial increase in sales. Because of that substantial increase in sales, we suddenly had to order a lot of materials and other items. Working capital requirements increased because of the asymmetric growth toward the latter part of the quarter.

The other factor is that there was also a not-insignificant 90 crores of capex during the quarter.

Rajakumar Vaidyanathan - V Rajakumar: Do you expect this cash to fund debt repayment, or will it predominantly remain in working capital?

Management: Working capital is also debt. You are borrowing money. When you reduce your borrowing, borrowing is borrowing and cash is cash. Your interest burden should come down going forward.

Rajakumar Vaidyanathan - V Rajakumar: My question is whether, once cash flow becomes positive, you will use that money to repay working capital debt, or whether it will remain to fund expansion and the increased working capital required for that expansion.

Management: Ramesh, do you want to give it a shot?

Ramesh: Yes, sir. Right now, we have applied this money toward repayment of debt. We have predominantly repaid bill discounting limits and have also partially repaid the working capital demand loan.

Report is AI-generated and may contain inaccuracies.

Approximately 282 crores of bill discounting and about 142 crores of the working capital demand loan have been repaid out of the issue proceeds.

We are seeing negative cash flow because, as our CMD said, the increase in sales resulted in higher receivables and higher inventory. Because of that, working capital has become negative.

Going forward, since the debt has already been reduced using the issue proceeds, and given the present level of activity, we do not expect further investment in working capital. The cash accruals we may generate over the next 2 quarters will be available for our capital requirements and capex requirements.

If there is any additional amount, we can always draw down on the loan. If you look at the debt, it has dropped from 1,167 crores in March to approximately 910 crores, including the bill discounting limits.

Rajakumar Vaidyanathan – V Rajakumar: Okay, understood. Thank you so much, and all the very best.

Management: Thank you.

Operator: Thank you.

Management: Thank you.

Operator: The next question is from Agam Shah from Agam Investments. Please go ahead. Agam, please unmute your connection and go ahead with your question, please. Since there is no response, we will move on to the next question from Neeraj Thakkar from Profit Tantra Financial Services LLP. Please go ahead. Neeraj, please unmute your microphone.

Neeraj Thakkar – Profit Tantra Financial Services LLP: Hello? Hello?

Operator: Neeraj, we are not able to hear you clearly.

Neeraj Thakkar – Profit Tantra Financial Services LLP: Can you hear me now?

Management: Yes, we can hear you.

Operator: The volume is very low.

Neeraj Thakkar – Profit Tantra Financial Services LLP: Thank you for taking my call and my question. My question is regarding margins. We are aspiring to achieve double-digit margins. If we reach double-digit margins in the next 1 or 2 years, how much free cash flow can we approximately expect? A ballpark figure, sir.

Management: It depends on what our investment plans are at that time and how much we are expanding. Free cash flows will depend on the capex that is undertaken. They also depend on how the industries in the various segments are growing.

Report is AI-generated and may contain inaccuracies.

It is very difficult to say what our free cash flows will be because it depends on the business cycle at that point in time. But, needless to say, my broad belief is that the next 5 years will be a good time for us to grow as a country in terms of manufacturing, and we will continue to make investments that give us an opportunity to grow.

Neeraj Thakkar – Profit Tantra Financial Services LLP: What about operating cash flows, sir? Can you give us any idea about operating cash flows?

Management: I do not have any idea what my operating cash flow will be 2 years from now.

Neeraj Thakkar – Profit Tantra Financial Services LLP: Regarding the windmill machining business, as you mentioned in the previous call, it does not contribute much to the topline but contributes more to the bottom line because it is job work. How do you see this business developing? It is already a double-digit-margin business. How do you see it over the next 2 to 3 years?

Management: Essentially, we are machining products made by a casting manufacturer. That casting manufacturer is currently producing approximately 3,000 to 3,500 tonnes a month. It has recently expanded from 3,500 to 5,000 tonnes a month, which we should start seeing from December or January onwards.

That is step one. Step two is that, perhaps a year or a year and a half down the road, they will look at increasing that from 5,000 tonnes a month to approximately 6,500 tonnes a month. They add 1,500 tonnes at a time.

From that, you can see that over the next 2 years, we should look at doubling what we are currently doing in that business.

Neeraj Thakkar – Profit Tantra Financial Services LLP: You also undertook capex in this business.

Management: Yes.

Neeraj Thakkar – Profit Tantra Financial Services LLP: So, I think a 20-crore-per-month run rate will be achieved?

Management: Yes.

Neeraj Thakkar – Profit Tantra Financial Services LLP: Thank you, sir. Thank you for answering my questions.

Operator: Thank you. The next question is from Anand Darshan from 361 Capital. Please go ahead.

Sailesh Raja – 361 Capital: Hello, can you hear me?

Operator: Yes, please go ahead.

Management: Yes, Anand, please go ahead.

Sailesh Raja – 361 Capital: This is Sailesh Raja, Anand's colleague. I have 2 questions.

Report is AI-generated and may contain inaccuracies.

We achieved export revenue of approximately 760 crores in the first half. What is our full-year revenue guidance for FY24? Could you also provide the breakup of exports between the auto and industrial segments?

Several auto ancillary companies are witnessing strong demand from overseas markets, driven by cost competitiveness and good quality, and we are also adding capacities. Against this backdrop, I want to know what export growth you expect over the next 2 years.

Management: When you look at our strategy, some areas—particularly industrial wheel demand, where we are already a leader—will be very export-oriented. Hydraulic cylinders will also be export-oriented. Cast aluminum wheels and air suspension will, of course, be domestic, while the windmill sector will also be export-oriented.

Our exports showed substantial growth, and a large part of that growth actually came from the US. Our US business grew 50%, largely driven by earthmover wheels and windmill-related products.

As you said, exports were 760 crores. It does not take too much to extrapolate that to doubling from that level for the full year.

Our focus this year is more on winning new export business and executing domestic business. From now until March, we are looking at how we can ramp up domestic production to meet schedules and execute new businesses that have been won.

Next year, we will definitely look at ramping up our export business as well. We are having a number of discussions with customers who are looking at schedules, and we are also entering discussions with new customers. This will fully develop more in the next year rather than the current year, at least in the next calendar year.

Sailesh Raja – 361 Capital: That is great to hear. Previously, you indicated that we are targeting a 10% to 12% market share in passenger car alloy wheels. Based on my back-calculation, that would imply increasing monthly volumes from the current 35,000 to 40,000 wheels to 1 lakh wheel rims. Is that correct, sir?

Management: Correct. Per month.

Sailesh Raja – 361 Capital: At this volume, what EBITDA margin can we expect?

Management: As I said when a previous colleague asked, we are looking at approximately 10% to 12% at this level.

Sailesh Raja – 361 Capital: Within a year itself?

Management: 10% to 12% once we reach 100,000. We will probably reach 100,000 by Q1. That is what we are expecting.

Sailesh Raja – 361 Capital: I am asking about the margin, sir.

Management: Yes, I said 10% to 12%.

Report is AI-generated and may contain inaccuracies.

Sailesh Raja – 361 Capital: Okay, sir. Understood.

Management: When we reach 100,000 wheels, we will have 10% to 12% EBITDA, and we expect to reach that level in Q1 of next year.

Sailesh Raja – 361 Capital: Okay. Great, sir. Thank you, sir. Thanks.

Operator: Thank you. The next question is from Samarth Ashok from Janak Merchant Securities. Please go ahead.

Samarth Ashok – Janak Merchant Securities: Am I audible?

Operator: Yes.

Management: Yes, Samarth, please go ahead.

Samarth Ashok – Janak Merchant Securities: I have 2 questions. First, in our alloy wheel business, we predominantly make LPDC alloy wheels, while the Japanese still work on GDC wheels. Do you see acceptance of LPDC wheels among Japanese OEMs? And second—

Samarth Ashok – Janak Merchant Securities: In the air suspension business, buses have reached a decent level of penetration for air suspension, and one of the truck OEMs has also launched a truck with air suspension. How do you see penetration improving for trucks as well in air suspension? Do you have any view on that? Thank you.

Management: We make wheels using LPDC technology, and Japanese companies predominantly use gravity die-casting. However, Japanese customers are also buying low-pressure die-casting wheels from many existing manufacturers. Therefore, I do not think that low-pressure die-casting will prevent us from supplying to Japanese customers in India. That is the first point.

In fact, our technical collaborator for aluminum wheels is a Japanese company that uses low-pressure die-casting.

The second question is related to air suspension. You are right that buses have achieved a fair amount of penetration. To give you an idea, our air suspension business grew by around 50% in the first half, or rather, the second quarter grew by around 50%. That is substantial growth in this segment.

You are right that one OEM introduced a truck suspension. However, that is a fairly low-margin business, and we are not interested in entering any new business that does not show visibility of double-digit EBITDA. Therefore, we are not entering the truck air suspension business.

The bus business, which also requires servicing and other capabilities that we have built over the decades, is what we want to serve.

Samarth Ashok – Janak Merchant Securities: Thank you. I have a follow-up question on the first question. Is the Japanese purchase of LPDC wheels a recent change, or has it existed in the past as well? Also, what is the size of the wheels that we will be selling?

Report is AI-generated and may contain inaccuracies.

Management: Typically, aluminum wheels tend to be between 14 inches and 19 inches in diameter for OEMs. I am saying that the range is approximately 14 to 19 inches in diameter, and that is roughly the size we are making.

As for the change, people do not necessarily prescribe LPDC or gravity die-casting. They look at certain characteristics that a process can build into the wheel. There are ways to improve the process even using LPDC and still achieve the required characteristics.

Samarth Ashok – Janak Merchant Securities: Thank you.

Management: Right.

Operator: Thank you. The next question is from Lala Ram, an individual investor. Please go ahead.

Lala Ram – Individual Investor: Good evening, sir. Am I audible?

Operator: Yes, please go ahead.

Management: Please go ahead.

Lala Ram – Individual Investor: My first question is, as of today, by when do you think we will be able to reach a double-digit EBITDA margin?

Management: 2 years.

Lala Ram – Individual Investor: 3?

Management: 2 years.

Lala Ram – Individual Investor: 2 years. Okay.

Management: Yes.

Lala Ram – Individual Investor: Beyond that, if I look at the main levers you have right now, aluminum wheels appear to be the biggest lever, given that you expect the business to grow significantly fast. Beyond that, which businesses do you think are second and third in the pecking order that will help bridge this gap?

Management: Our industrial wheel business will also help bridge that gap, but it may be slow to accrete because the number of different products and the variety are huge. We have to add one product at a time.

The other factor is that some of the businesses that are currently low-margin can become double-digit-margin businesses once they reach scale. In particular, I would say that the hydraulic cylinder business, which is currently a low-margin business for us, can become quite profitable once we scale it and move into higher-value categories. That is definitely one business that I believe can help us.

The windmill business and the machining business will also improve margins as we scale them.

Report is AI-generated and may contain inaccuracies.

In air suspension as well, once we reach global scale, our costs and efficiencies will improve, and the additional cost for additional sales will become relatively lower.

Therefore, scaling up the businesses is the biggest opportunity outside of aluminum. I believe we have prospects to do that in some of our industrial tractor-related components, the fabrication and machining business, the hydraulic cylinder business, and the air suspension business.

Lala Ram – Individual Investor: Understood. I want to understand the industrial business. It is fairly small today. How big can it become in the next 3 to 4 years, according to you?

Management: Our industrial wheel business comprises construction wheels and agricultural tractor wheels, and it is a 1,500-crore business, so it is not small.

Lala Ram – Individual Investor: Okay, my mistake. I was referring to [crosstalk]

Management: This is the overall business. The tractor portion is largely domestic. As the export-oriented part of the business increases, the margin improvement there will be substantial.

However, I would still agree with you that aluminum wheels, because of the quick ramp-up, will be the first to accrete to margins, followed probably by air suspension, hydraulic cylinders, and agricultural tractor exports.

Lala Ram – Individual Investor: Thank you. One more question: given that you have many businesses, and within each business there is a domestic market and an export market, if I take a step back as a shareholder and want to understand how Wheels India could become a 10,000-crore revenue company, what will drive that growth? Will it be becoming more global and exporting more, or will it be driving the domestic business?

Management: I think it will be both. India will continue to grow, and we are growing faster than most other large economies. Related to that, all the segments in India will also continue to grow.

But we do want to be a global supplier rather than purely a local supplier, so we will also look at growing the businesses.

If you are talking about the 10,000-crore level, outside the current product categories, we may consider another category at a later date. But at the moment, the current strategy should take us quite close to that level.

The current strategy shown on the slide in front of you—industrial wheels, windmills, hydraulic cylinders, cast aluminum wheels, and air suspension—should itself take us there quite quickly.

Lala Ram – Individual Investor: At that scale, what do you think our margins would look like? Would it be 10%, or closer to 12% or 13%? What is the opportunity there?

Management: When you are down and looking up, you look only at the next level, [laughs] which for me currently means double-digit, or 10%. Once we cross 10%, we can certainly look at going higher, but first we need to reach 10%.

Lala Ram – Individual Investor: Understood. One last question, if I can ask?

Report is AI-generated and may contain inaccuracies.

Management: Yes.

Lala Ram – Individual Investor: Given the core capabilities we have as a manufacturer, which adjacent areas can we enter beyond what we have today?

Management: On the industrial side, we can definitely look at whether we can start making modules. In some cases, we do fabrication, and we also make cylinders, so whether module expansion is possible is definitely something we can examine.

We are also examining whether there is an opportunity for us to make components for gas turbines. It is still at a very early stage of investigation, but we are looking at it.

We work along with our customers, and as and when they open these opportunities for us, we should be ready to take them.

Lala Ram – Individual Investor: Thank you so much. I wish you all the best.

Management: Thank you.

Operator: Thank you. The next question is from Rajakumar Vaidyanathan, an individual investor. Please go ahead.

Management: Rajakumar, go ahead.

Rajakumar Vaidyanathan – Individual Investor: Thanks for the follow-up, sir. This is a generic question. Do you use AI and AI-related solutions in your manufacturing and day-to-day operations? I want to know the current level of usage and whether you expect usage to increase in the coming months.

Management: Rajakumar, you seem to think similarly to my board. I answered the same question [laughs] in my board meeting earlier today.

Broadly speaking, we are already using AI for quality inspection. We are using it for data capture and recalibration related to improving OEE and preventive maintenance. We are examining how we can improve sales forecasting. These are some of the areas where we are looking at AI.

We are also examining whether we can use it to speed up the product testing and validation process. These are some of the areas we are considering.

Rajakumar Vaidyanathan – Individual Investor: Do you use in-house resources, or do you work with IT vendors on this initiative?

Management: As you can probably see from our margin profile, we cannot afford those people. [laughs] So, we end up working with vendors and start-ups. There is a large and varied group of people providing services in each of these AI sub-segments.

Rajakumar Vaidyanathan – Individual Investor: Do you expect this to help improve your margins in the coming days, given the impact it can provide?

Report is AI-generated and may contain inaccuracies.

Management: In terms of improving efficiencies, it can definitely help. Probably it will help more in some sectors than in others, but we do believe it can help.

Is it absolutely game-changing in the sense that it transforms the products we make and everything else? Very unlikely. To put it very crudely, we are in the metal-bashing industry, and we still need to bash metal.

Rajakumar Vaidyanathan – Individual Investor: Okay. Understood, sir.

Management: Yes.

Rajakumar Vaidyanathan – Individual Investor: I have 2 more housekeeping questions, if you permit me.

Management: Okay.

Rajakumar Vaidyanathan – Individual Investor: The first one is regarding your significant exports. What is your current hedging policy? Do you hedge or not hedge? In the last call, I believe the CFO mentioned that you also import raw materials. Do you leave it open, or—

Management: We look at net exports. You are right that we also import, so we look at the net export level and then determine whether we need to take covers.

Rajakumar Vaidyanathan – Individual Investor: So, you take covers [crosstalk]

Management: It is a dynamic situation. The extent of cover also depends on various factors. We work closely with consultants such as Rajwade and others, and based on their advice, we make the decision.

Rajakumar Vaidyanathan – Individual Investor: So, you take only short-term covers, with no long-term hedging?

Management: No. No.

Rajakumar Vaidyanathan – Individual Investor: Understood, sir. The last question is on other current assets, which have increased by almost 100 crores between March and September. The CFO could answer that question.

Management: Ramesh?

Ramesh: Yes, sure. After the introduction of GST 2.0, the GST structure has become inverted. We are applying for refunds and receiving them. As of now, some funds are blocked in terms of GST.

Rajakumar Vaidyanathan – Individual Investor: Do you think this will be prolonged, or will it be resolved? There was some relaxation given in the last—

Ramesh: Yes, relaxation has been given in terms of services. We can also request a refund in relation to services.

Report is AI-generated and may contain inaccuracies.

We are working on this. We collect refunds through the export route and through the inverted-duty-structure route. However, we still have a challenge of approximately 130 to 140 crores, which ideally should be converted into cash, but we are facing some difficulty with that.

We are working on various options to reduce it. Hopefully, we should be able to make some improvement over the next 2 quarters.

Rajakumar Vaidyanathan – Individual Investor: There is no provisioning required for this in the event that it cannot be collected?

Ramesh: No. It is a valid balance in the GST portal. The only issue is that its utilization is being delayed. The refund is being delayed. We are receiving the refund, but it is delayed.

Rajakumar Vaidyanathan – Individual Investor: Thank you so much.

Operator: Thank you. Our last question is from Rakesh, an individual investor. Please go ahead.

Rakesh – Individual Investor: Can you hear me?

Operator: The audio is not clear.

Rakesh – Individual Investor: Can you hear me now, please?

Operator: Yes.

Management: Yes, we can hear you, Rakesh. Go ahead.

Rakesh – Individual Investor: I think I have already received answers from others on profitability and future growth. My question is on export revenue.

Your export revenue has grown strongly this quarter, primarily led by construction equipment wheels. Given the recent establishment of your US and European subsidiaries, could you share the export order pipeline for the second half of this fiscal year? Are there any specific risk margins that the company is monitoring?

Management: There is no risk margin that we are monitoring, to the best of my knowledge, but exports continue to be strong. Whatever we achieved in the—

Management: In the first half, we should only improve in the second half of the year. The order book looks reasonably strong.

Typically, we work on customer schedules. Customers provide monthly schedules, and that is what we work on. They also provide us with some visibility based on an S&OP. Many of these customers are customers we have been dealing with for 10, 20, or even 30 years.

Therefore, it is more of an ongoing business in which we win a new product development opportunity and receive additional business from that.

We do not really track our order book as such. We track our monthly schedules. Schedules remain strong, and at least in the near future, I do not see things slowing down.

Report is AI-generated and may contain inaccuracies.

However, we will wait and watch because this is a very volatile world. Despite all the duty-related disruptions we saw last year, we were able to manage the year reasonably well while having substantial exports to the US.

Rakesh – Individual Investor: Are there any challenges due to geopolitical issues for your exports?

Management: Yes, there will certainly be some, because [laughs] they keep changing their duties, then they provide refunds, and then the customer wants—

Rakesh – Individual Investor: Tariffs and all of that, yes.

Management: All of that exists, but it is still a business to which we are committed.

We want to be global suppliers in some of the product categories, and we are already global suppliers in some categories. We do not really look at it as exports versus domestic. We look at how we can best serve whichever customer we have and how we can best meet the customer's requirements.

Some customers say that they want to work only with global suppliers. We therefore look at how we can meet that requirement.

The prospects are quite good. I think people are much more open to Indian products now compared with 5 years ago.

Rakesh – Individual Investor: Thank you, sir. Thank you very much.

Management: Thank you.

Operator: Thank you. I would now like to hand the conference over to management for closing comments. Over to you.

Management: Thank you all for joining the investor call and the earnings call.

We continue to work on our key strategy along the lines shown on this slide. We will continue to interact with you. We thank you for all your best wishes and your queries. Some of your queries also make us think and act differently from time to time. [laughs]

We will definitely continue to engage with you. Thank you so much for your interest in our company, and we look forward to future interactions with you. Thank you.

Operator: Thank you.

Management: Thank you.

Operator: On behalf of ICICI Securities, that concludes this conference. Thank you all for your participation, and you may now exit the meeting.

Management: Thank you.

Report is AI-generated and may contain inaccuracies.