



“Wheels India Limited Q1 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Wheels India Q1 FY2022 earnings conference call of Wheels India Limited conference call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Nishant Vass from ICICI Securities. Thank you and over to you, Sir!

Nishant Vass: Thanks, Mallika. Good day everyone and thanks for joining us today for this call. From the management side, we are represented by Mr. Srivats Ram, Managing Director and Mr. R. Raghunathan, Chief Financial Officer. Now, I would like to hand over the call to the management for their initial remarks. Over to you, Sir!

Srivats Ram: Good afternoon ladies and gentleman. It is a pleasure to meet up with you again for second investor call, we had one last quarter. I thought I will give you brief overview of performance. The first quarter's revenues are Rs. 675 Crores and net profit of Rs.10.13 Crores, of course it is not really comparable with the first quarter of last year as we had the national lockdown in the first quarter, which resulted in sales of only Rs. 212 Crores and net loss of Rs. 38 Crores, but this quarter was a strange one in the sense that it started off well enough in April and May. We were particularly badly hit because of the lockdown, specifically in the areas where we have manufacturing facilities. Also, customer's leadership points were shut down and so as a result of that we had quite a difficult period in the month of May, not very dissimilar to the last year first quarter. June came back strongly enough, so very very mixed, very very up and down type of quarter with revenues plummeting and then going back to the earlier level. Other than this, severe disruption in terms of demand and supply were followed by the second wave, also because the communities around which our manufacturing plants are set up were badly affected. We also participated in relief of the communities in the second wave by means of equipment and also in terms of funding. The exports, despite this disruption, continued to show sequential growth. We have actually been showing sequential growth in exports from the first quarter of last year and that trend continued and is likely to continue at least in the future quarter going ahead where we see strong demand in exports and thereby had programs for long stream. There is a growth in exports.

Of course, these are also very inflationary time and much as the exports grew for the fourth consecutive quarter, it is also something very similar in terms of steel prices. Commodity prices remain a bit of a concern but we hope there is moderation in the latter part of the year as prices are catching up to international prices. So, these are very brief comments that I have. I will hand it over to you and your questions and

I hope while answering your questions we can clarify any doubts you have and any concerns and as we answer the questions if there are even strategic points that would help explain the answers better, I will share those with you

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sahil Chopra from KIFS Trade Capital. Please go ahead.

Sahil Chopra: So can you share the contribution of in total sales of the company for Q1 as well as for FY2021?

Srivats Ram: If you look at segmental analysis, which is also shared, it shows clearly the automotive products and industrial products are the two segments that we have. If you look at automotive components, Rs. 621 Crores is the sales and industrial component was Rs. 107 Crores. So Rs. 621 Crores by Rs. 728 Crores would be the automotive component, but in all fairness this also includes the air suspension division but the air suspension division was very negligible in the first quarter. So I will say about Rs 600 crores out of Rs 728 crores would probably be the contribution from the automotive wheels.

Sahil Chopra: This is for Q1 as well for FY2021, so same trend is there?

Srivats Ram: Q4 was different because the air suspension division was very strong.

Sahil Chopra: FY2021?

Srivats Ram: FY2021 what we have shown is Rs 2000 crores, so as opposed to Rs. 2000 crores it will probably be something like Rs. 1900 cr .

Sahil Chopra: If you can provide bifurcation of steel, cast and forged wheels within that?

Srivats Ram: I can give rough estimate, for example if you look at in the last year, it was the worst year ever because we had a 50% downturn and then we had a reduction following that, so for us if you look at it, overall in terms of revenue, it would be Rs. 400 Crores out of Rs. 2200 Crores, Rs. 400 Crores to Rs. 450 Crores would have been truck, the tractor segment was closer to Rs.500 Crores.

Sahil Chopra: I am asking bifurcation in terms of steel, cast and forged wheels front?

Srivats Ram: So, you are asking regardless of truck you are just saying how much is steel, how much is cast, how much is forged?

Sahil Chopra: Yes.

- Srivats Ram:** Okay if I look at 2021, the forged and cast was about Rs. 140 Crores out of the total automotive wheels so it was not a lot it is about Rs. 140 Crores, also what we said was it was fairly less compared to the overall total because if I look at the total sales in terms of wheels, I have to look at it as an automotive segment, so out of Rs. 1900 Crores, Rs. 140 Crores would be aluminum and rest of it was steel.
- Sahil Chopra:** And if you can share the margins in these three segments, like for steel, cast and forged?
- Srivats Ram:** We look at the businesses in segment, so we look at it as car, truck, tractor as automotive, we have construction wheels, which is different. On aluminum wheels, on the forged wheels the margins are very clean, double digit margins, cast wheels as we started only in the latter part of last year, as a matter of fact we only got our power supply in the fourth quarter, it was still making a loss but I can also tell you that earlier in the last investor meet we have said that we are going to look at break even towards the end of the first quarter., An update on that, we will probably now look at breaking even by the month of September, this is monthly breakeven and not annual..
- Sahil Chopra:** What will be the maximum sale, the company can achieve from cast and aluminum wheel plant at optimum capacity?
- Srivats Ram:** So, plant that we set up is basically about 7,50,000 wheels let us say on an average and out of that we have done phase 1 last year, which is 3,50,000 wheels and phase 2 is coming this year, , so you were asking about the capacity?
- Sahil Chopra:** What will be the maximum sale, the company can achieve at optimum capacity?
- Srivats Ram:** So, if you take a rough price about Rs. 5000 Crores that will give you a sense.
- Sahil Chopra:** Okay, that's all. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Raja Kumar who is an individual investor. Please go ahead.
- Raja Kumar:** Good afternoon sir. Thanks for the opportunity. Sir my question is in the last call you had mentioned that you are looking at closing off the fabrication unit because it currently is at negative bottom line, just wanted to know do you have any update on that and also what is the negative bottom line that we are getting from that division?
- Srivats Ram:** That was hampered largely by the second wave because unfortunately we have to deal with government agencies when you are closing a unit but we are still confident that we will be able to close this before the end of this quarter and the negative contribution

from this in the last year was a couple of Crores, it is a relatively a small unit but it is losing about 2 to 3 Crores. I hope that answers your question.

Raja Kumar: Yeah thank you for that. The next question is you said you are having some cost pressures because of the steel price increases, but generally you had also mentioned in the last call that most of it is pass through, so given this would you expect your margins to stabilize in the coming quarter given that we have already seen the best of the hikes the gone by quarter?

Srivats Ram: So, you are right in sense that hikes have been quite extraordinary, I mean 27 years of being in this business, we had 40% hike and this is clearly the biggest hike that I have seen over this period, both in India and globally. We have been able to recover it from our customers, so if you look at the overall margin in rupees that would be preserved, but the issue that you will have is actually if you look it at as a percentage because the numerator and denominator both go up by the same amount to understand what I am saying, but the absolute value will remain the same.

Raja Kumar: Yes sir I am able to understand, I just want to know what is normalized EBITDA that we can expect going forward?

Srivats Ram: If you look at Wheels India, traditionally has seen about 8% EBITDA but we have actually explained last time our strategy of growing three different segments and through the growth of these three segments, taking the EBITDA to double digit level over the next couple of years, so broadly speaking the segments that we are looking at growing first is aluminum wheels, cast and forged, second is agriculture tractor and construction wheels globally, and the third one was the windmill component division. So through these three divisions, we have a clear strategy and we already have engagement with customers and we have an order book, which should hopefully take us to the levels that we want to grow to achieve that.

Raja Kumar: If you permit me just one more question, on the wind division, I just want to know given the players that we have in India they are not financially doing that great just wanted to know are we doing more business with the domestic players or just catering towards the exports?

Srivats Ram: First of all the business that we do with the domestic players is only with the multinationals, so we are only dealing with multinational company and our supplies are global, we have seen as a global supplier. Actually, the segments that I mentioned forged, cast, construction, tractor of course domestic is also large and the windmill segment in all, the segments we are seen as a global supplier.

Raja Kumar: Okay sir. Thank you sir. All the best.

- Srivats Ram:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** Could you share the broad revenue breakdown like you provided last time in terms of the various categories, both in exports and domestic as well as from a category basis, is that can be readily provided?
- Srivats Ram:** Sure, in the first quarter this is again looking at it from a quarterly basis, so in the first quarter, our exports were about Rs. 212 Crores vis-à-vis our overall turnover is Rs. 675 Crores, so that gives you sense of the export percentage and over 31% is actually coming from exports but this has also been growing, so if you actually look at Wheels India going back couple of years, three years back we were below 20%, then two years back we reached 20%, last year we reached 25%, and this year of course it depends on the domestic industry and how it comes back but we expect that we will have roughly around 30% of our sales coming from exports. This trend is likely to increase because we are finding ourselves increasingly meeting global requirements in some of the new sectors.
- Nishant Vass:** Can you shed a little more light on that in terms of the sectors on a broad basis?
- Srivats Ram:** So, if you look at our exports, as I mentioned have grown from 20% to 30% in a two-year period and that has actually come in the segments that I mentioned earlier, one is relatively new segment for us at least which is cast, and forged wheels. The second was tractor and construction wheels where there is some consolidation amongst global suppliers and that consolidation is benefitting us. The third area which we are gaining some traction is as a global supplier to windmill industry, so these three areas are growing both in terms of adding new customers, adding new segments within customers, adding new models that we service within the customers, and in the automotive that is in the construction division we are also adding products. So, the windmill component division per se does not actually manufacture wheels, we make parts for the windmills, roughly about 85 categories of product if I can remember, so on a continuous basis you look at the next three years and we look at adding part to what we service, then we look at servicing that first in the domestic market and in a two year window looking that as an export business as well.
- Nishant Vass:** Understood sir. Thanks for that, obviously because just to put an assessment in terms of much specifically exact number but from an opportunity sizing basis on those 85 products that you mentioned if you were to hazard against over three to five years cycle what can be the potential opportunity segment in terms of potential revenue, is that possible to give a directional sense?

- Srivats Ram:** To give you a sense, I do not have two years, three years type of window in each of the category, but roughly speaking it would be reasonable to assume that the windmill component division can potentially grow upto Rs. 2000 Crores over a period of time, that the aluminum division could grow upto Rs. 1000 Crores over a period of time, that the tractor segment and construction segment together can grow to about Rs. upto Rs.1500 Crores over a period of time.
- Nishant Vass:** Perfect sir that was really helpful sir. Just from an update standpoint you mentioned that the breakeven has got a negative push back till September, any update in terms of where the utilization be, where you are seeing some issues in terms of breakeven in this process?
- Srivats Ram:** We were impacted due to the second wave as it has delayed lot of the processes and we are also facing issues because the customers wants to receive the product and then they ramp up the volume. Actually shipping times have increased by about 20 to 24 days, because of Suez and the backlog thereafter, we are finding that the goods actually arriving at the customer end, has gone up by something like 20 days, pretty much across the board but 20 days would apply probably most to North America and Europe.
- Nishant Vass:** Sir, I would just ask one question and then fall back in queue. In terms of capital investment is there any change in plans from your earlier mentioned Rs 100 Crores of capex?
- Srivats Ram:** No, we do not have any change in the plan, we typically look at freezing our capex and then sticking to it, so there is no change in what we communicated last time.
- Nishant Vass:** Okay sir, fair enough. I will fall back in queue.
- Moderator:** Thank you. The next question is from the line of Raja Kumar who is an individual investor. Please go ahead.
- Raja Kumar:** Sir thanks for the follow up and sorry to labor on the same question on the EBITDA, you mentioned that the steel price increase is anywhere between 30 to 40% because the sales is inflated and that is what is pulling down your EBITDA margins right, so I just wanted to know even if I take say about a 30% cut from your sales number and look at the EBITDA for March 2021 quarter that you reported, I am getting almost 10 to 10.5% EBITDA number, so is it fair to say that you are kind of matched out on the EBITDA in the coming quarter?
- Srivats Ram:** As I mentioned, last year was a bad year because of COVID and probably is not representative in larger view, we were only 6.5%, but on average it has been about 8% EBITDA margin company, we are looking at on a like to like basis going back to 10%

EBITDA company on a like to like basis. So steel prices are going up, the steel prices will also come down, it is not as if it is going to remain at high level over a three year period that has not happened historically. I hope I answered your question satisfactorily.

Raja Kumar: Yeah, my question is actually is it fair to assume that our EBITDA performance in the coming quarters assuming there are no more COVID-related shutdowns, we will be able to do better than the March 2021 quarter that is my question?

Srivats Ram: I think the second quarter will be representative of how the other quarters will be, but there is slight difference in the sense that you will see volume ramp up really turning in from the third and fourth quarter, especially in the type of industries that we are in, third and fourth quarter we will see a ramp up because there is some segment which has been very low, like the commercial vehicle and if it goes up it is only likely to go up at that point of time. So I would say that the first quarter was affected by COVID, second quarter, touchwood, I hope it is not going to be affected, if it is not going to be affected, it will give you a chance of what is going to come.

Raja Kumar: So September onwards we can expect a performance better than the March 2021, in fact that is the answer that I am getting is it correct sir?

Srivats Ram: It is very difficult for me to give you a sense of that because it also depends what happens with COVID, if I say that I have visibility I can probably say that I am hoping that this quarter there will not be a third wave of COVID, so I have some comfort about this quarter, which would be quite reasonable but it would not be at the same level because the revenue is not in the same level as last year fourth quarter.

Raja Kumar: Got it sir. Thanks for the explanation.

Moderator: Thank you very much. The next question is from the line of Sahil Chopra from KIFS Trade Capital. Please go ahead.

Sahil Chopra: So my question is related to your latest annual report, in your latest annual report you had mentioned that company is going to sell its one of the small plants since you are making steel plants or thermal power plant, so what kind of money company can expect to do?

Srivats Ram: We are basically looking at recovering the net asset block that we have in that business. That business is a business that I think one of your colleagues had asked the question, it is a business that we are losing about a couple of Crores a year and the asset block is very small, the asset block if I am not mistaken is slightly over 10 Crores something like that, I do not have the exact number but something roughly in line with that.

- Sahil Chopra:** What is the current status in terms of the sale?
- Srivats Ram:** We expect to complete it by September. We are hoping we can complete it by September, it will be done when it is complete in all aspects but we are at fairly advanced stages and hope that we can complete. We had a mandate from the board, which we shared with you the last time and the update right now is that we hope to complete by September.
- Sahil Chopra:** Second questions is related to like as we all know that transition of alloy wheels are like going up, so can you give any ballpark figure for what percentage of new vehicles are coming with alloy wheel compared to last year.
- Srivats Ram:** It actually varies from product to product, for example if we take the SUV, compact SUV and SUV segment, it is closer to 40% but if you take the small car segment, the Alto or the lower end or the base segment, it is more like 20% to 25%. it works out to 35% in the Indian Automotive market.
- Sahil Chopra:** And for CVs?
- Srivats Ram:** CVs don't use alloy wheels, it is only for passenger cars.
- Sahil Chopra:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Geetanjali Kedia from SP Tulsian Investment Advisors. Please go ahead.
- Geetanjali Kedia:** My first question is on the capacity utilization, can you share what was the utilization levels in Q1 and in Q4 FY2021?
- Srivats Ram:** Q4 was reasonably strong, I would say on the tractor side, it would probably be in excess of 90%, on the commercial vehicle side it would have been probably around 70%, so these are the two segments I think for us if you look at construction, it was also probably something like 65% and on the windmill division, we would have been probably at close to 80% in Q4.
- Geetanjali Kedia:** And likewise for Q1, Q1 FY2022?
- Srivats Ram:** So, Q1 if you look at commercial vehicles from 70% it came down to about 40%, Q4 was the peak and then it came down in Q1 plus we had COVID, tractors maybe about 5% to 10% lower than what it was in Q4, but otherwise still quite strong. The windmill segment came down by about 10%, again this is seasonality and, construction business

if I leave out the lockdown month, actually it might have increased marginally on the capacity utilization.

Geetanjali Kedia: How is it in July? Have you seen a month-on-month growth in July say it was not, you mentioned May took a dip and then June recovered, so July also recovered from June?

Srivats Ram: Yeah July is a reasonably strong month pretty much across the board.

Geetanjali Kedia: Has it gone back to say Q4 level, July.

Srivats Ram: No not Q4 level, Q4 is normally the peak period, so it has not gone back to Q4 level but it is definitely stronger than what it was in any month of Q1.

Geetanjali Kedia: Got it, finally any color which you can throw in your current order book, any numbers which you can share, how is it looking, your new order pipe line, etc.?

Srivats Ram: We gave a sense on the export front, domestic business I am not willing to stick out my neck because it really depends on how the third wave comes about and honestly lot of our customers also tell us the same thing, but on the export business I mentioned that we showed four successive quarters of growing export and that in the first quarter it was Rs. 212 Crores. I also said that we will likely to continue for the foreseeable future at least for the next two to three quarters at the very least where we have the visibility. So that is likely to definitely grow which is also probably why we are saying that exports will remain at least 30% of our sales because even if domestic business grows we know this is also growing.

Geetanjali Kedia: So for domestic we will have to wait for a couple of more quarters before we could get some confidence as of the export business?

Srivats Ram: It is very difficult to judge, I will say that the tractor business will show positive growth in this year despite the fact that it is of very high base but it looks quite positive, passenger car of course because we had a national lockdown last year and this year, provided we do not have third wave and other such things, demand per se looks quite strong, commercial vehicle will really take till probably latter part of the calendar year for it to start showing any signs of growth.

Geetanjali Kedia: Thank you so much.

Moderator: Thank you. The next question is from the line of Rohit from Samatva Investments. Please go ahead.

- Rohit:** Good evening, just one question. Sir do you export aluminum wheels for the passenger vehicle segment right now.
- Srivats Ram:** Yes we do.
- Rohit:** And which will be your major countries like?
- Srivats Ram:** North America.
- Rohit:** Okay, North America and has this like increased like how is the trend, you said to the previous participant that next two to three quarters you see a good trend going forward, so will it be majorly with your current customers or are you expecting to add a couple of new customers going forward in the alloy wheel segment?
- Srivats Ram:** On aluminum wheel, unfortunately we are not able to meet our existing customers, so I think it will take us a few quarters before we can meet the entire requirements because the requirement is quite strong. We are looking at new customers really in the other segments like agriculture tractor, construction, and the windmill segment.
- Rohit:** Sir that will be steel wheels majorly right?
- Srivats Ram:** Windmill is not, but agriculture and construction yes.
- Rohit:** Okay sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** Hi sir, thank you for the followup. Just wanted to check in terms of your progress, you had mentioned in the previous call about the machining capacity investment that you are planning for the growth in size, so any progress in terms of that project and has the scope remains the same, how are you thinking around that?
- Srivats Ram:** So we are probably looking at commissioning the line from January of next year. So in January 2022, which is actually fourth quarter this year that is probably when the line will get commissioned and I think once it gets commissioned because we are actually in a sense machining partner to a casting manufacture, we will largely follow his ramp up plan. So the casting manufacturer makes large casting for the windmill industry globally and he has ramped up over the next two to three years with an annual ramp up and we will make investments in line with that to ramp up our business as well.

Nishant Vass: Fair enough, sir I had couple of more questions, one question was obviously there was a question asked by participant in the cost side on the raw material, but just on your exports because you have briefly touched upon the freight and container, Suez as well as cost are also normal, so how does that kind of interplay with you guys in terms of wheel customers, are those cost embedded at the customer's end or we have to kind of find way to mitigate that?

Srivats Ram: To a large extent we do have some customers where it is at our cost, but to a large extent we also have customers who are bearing the freight cost as per the contract.

Nishant Vass: It might have a lag effect but it should not have a major broader impact in terms of export profitability. Sir my last question is in terms of you touched upon change in terms of investment plan, so on a broader basis how are you thinking about debt and working capital both on the long term on the working capital side, any thoughts on that?

Srivats Ram: Obviously, two things have impacted our working capital quite a bit. The first one is actually the fact that the steel prices have gone up, so the steel prices have gone up even if the wheel prices go up, really our inventory levels, debtor levels go up because of the inflation. The second factor which affects us is with 30% of our sales coming from the export, the additional 20 days of transit time because of the Suez problem earlier this year and shortages that were there. I hope that answers your question.

Nishant Vass: Sir on the long term side would you have any thoughts on the long-term, any plans on how you are looking at it in terms of reduction?

Srivats Ram: So in terms of working capital, there are two parts of it, one is in any ramp up business ,we have a number of businesses which are ramping up, cast and forged wheel business is one and also some of the windmill project businesses where you initially start a plant you have higher inventory levels, but once you hit a critical month it stabilizes and the inventory days go down. This is one factor which will come into play in terms of the working capital related to our business. Other than that, I think because our focus is on the export business, the strategy focus itself will probably result in some amount of working capital increase because of the longer delivery times for export customers vis-à-vis domestic customers.

Nishant Vass: Understood sir. Thank you so much. I will fall back.

Moderator: Thank you. The next question is from the line of Raja Kumar V who is an individual investor. Please go ahead.

Raja Kumar: Thanks for the followup. Sir one question, I have seen many companies the inventory levels have gone up, especially in most of the companies that deal with the steel, so just

wanted to know is it something to do with the semiconductor shortage that people want to play the game little safe and they are stocking more, so do you see that from your customer are they frontloading the supply and you see the supply is kind of scaling down as you move one or two quarters down the line. Just wanted to know because basically my question if this demand going to cater out as we feel two quarters down the line?

Srivats Ram: I think definitely some amount of pent up demand in India is due to the second wave. From second wave, dealerships are closed and it took little while into June before everything opened up, so July is actually the first month that you have where people are going out for stocks. So there is an element of pent up demand. I wish to state that the pent up demand is not the only element of increase, there is also some genuine demand which is coming in because people also seem to have cash. The one who have cash seems to have more cash than the others, broadly speaking.

Raja Kumar: Okay sir. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

Srivats Ram: I wanted to spend a little time in terms of our strategy, which is again evolving but I thought I will give you a flavor from it to give you a sense of our directions, especially from our view. So if you take the windmill segment, we have actually grown the business to be a multiproduct supplier to the windmill industry globally. This is something that we are continuously adding to, so we keep adding products, sometimes the products are through technology agreements, sometimes the products that we add are through supply arrangements where we are part of the supply chain of a global supplier, so this is something that we will continue to do. Similarly, on the construction equipment side as well, we have products also from fabrications, which are being done by us and we are looking at how we can expand our product portfolio where it can be profitable and at the same time we will look at leveraging relationship that we have. So, this is something that we are doing globally and if the strategic customer is an India-based customer, we are also looking at India-based customers and offering a multitude of products to the Indian customer so this will be the strategy that we will adopt going forward other than basic strategy, look at growing and creating a presence in global market. With that I would like to thank all of you for your confidence in our company and look forward to your support and interaction and also insights that I get from our interactions going forward. Wish you all the best. Please take care and keep safe.

Moderator: Thank you very much members of the management. Ladies and gentleman, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.