“Wheels India Limited Q2 FY23 Earnings Conference Call”

November 03, 2022

MANAGEMENT:	**MR. SRIVATS RAM – MANAGING DIRECTOR, WHEELS INDIA LIMITED** **MR. P. RAMESH – CHIEF FINANCIAL OFFICER, WHEELS INDIA LIMITED**
MODERATOR:	**MR. BASUDEB BANERJEE - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY23 Earnings Conference Call of Wheels India hosted by ICICI Securities. As a reminder, all participant lines will be in the listen only mode, and 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'll now hand the conference over to Mr. Basudeb Banerjee from ICICI Securities. Thank you, and over to you, sir.

Basudeb Banerjee: Thanks, Rutuja. Good afternoon to all the participants. We have with us the management of Wheels India Limited, represented by MD, Mr. Srivats Ram; and CFO, Mr. Ramesh. Thanks to the management for giving us the opportunity to host the call. So, over to you, Mr. Ram, for your initial comments followed by Q&A session.

Srivats Ram: Thank you, Basudeb. And good afternoon, ladies and gentlemen. Thank you for joining us for the call. We had a fairly mixed second quarter. The top line growth, the turnover increased on a Y-on-Y basis, Q2 increased from Rs. 911 crore Rs. 1,109 crore, which is a 21.74% increase in top line. The bottom line came down from Rs. 21.2 crore to Rs. 15.14 crore which is a 28% decline. Other salient features is that exports were 23% of the total turnover. There is some amount of decoupling which is happening wherein we are seeing international market slowing down and the Indian markets are still remaining reasonably strong on Y-on-Y basis. The company had a couple of major challenges in the quarter. The first one was that interest cost for the company has gone up substantially, A, because the bulk of the impact of the 1.9% rate increase that took place on our books started taking effect only in the second quarter. So, there was a large chunk which built up due to that. There was also additional interest costs due to additional borrowings because we found that the export markets where there was some element of buoyancy or prospect to buoyancy in the first quarter, where if you looked at internationally, we saw commodity prices all shoot up in the month of June and then plummet shortly after. So, the same thing happened with our customers where customers had orders, we had ordered materials based on it and suddenly there was a cancellation of orders because they realized they were sitting on lot of stock.

So, this impact of stock correction, if you can call it that, impacted us in the second quarter, notably in the months of August and September. It's expected to be there to some extent even in October and November, following which we have interacted with our customers and they said that from December onwards, things will return to some degree of normalcy. In terms of the businesses that were impacted on it, impacted by the export slowdown, it was more retail facing type of customers for example, aluminum is where we sell in the aftermarket in the US, there was a there was a big drop due to the stock correction. However, the OEM-related businesses that we have remained pretty much in line.

In the Indian market, of course, if you look at it, especially on a Y-on-Y basis both commercial vehicles and passenger cars showed fairly decent growth on a Y-on-Y basis and sentiments were quite good and volumes also came through for us. tractor market showed marginal growth, but again, coming off a fairly strong year last year. The segments which for us has shown relatively unexpected growth was the air suspension business where it was very badly affected by COVID over the last 3 years, and we started seeing volumes kick in from the month of August. Now, it's expected that this will continue for at least the next 8 to 12 months, definitely the bus volumes will come back.

I'd like to also give you a sense of what has happened by talking about share of revenues that came from different segments. One is the automotive segment while it by and large remained the same compared to Q2 of last year at 57%, there was a change in the sense that the aluminum business dropped from 8% to 5% because of this order cancellation, and the CV business picked up a slag and grew from 18% last year was low to 21%, so CV increased. Tractor and passenger remained pretty much the same.

The construction equipment business also remained pretty much the same. It is currently at about 24%. In the wind business, wind business for us is a global business, and globally due to shortage of components, there has been a slowdown in that business and we were hit. Our turnover came down from 14% to 10%. The air suspension business however grew from 4% of our total revenue to 8% of our total revenue. So, if I look at the different segments in the second quarter, the percentage of revenue 21% from CV, 22% from tractor, 24% from the earthmover segment, passenger steel 9%, aluminum 5%, air suspension 8% and wind 10%.

Exports, as I mentioned, has come down. It had gone up to as high as 28%, but with the domestic market growing and the export market slowing down, it came down to 23% in the second quarter. The second quarter also saw the company start a new plant; of course, it started only in the end of September. But the company has set up a plant for machining of large castings, which feeds into windmill-related customers where the customers have also given us back orders, and we will be doing machining for a casting manufacturer. It's a business which will be more of a conversion type of business, and the company has invested close to about Rs. 75 crore in this business.

Other feedback I'd like to give you is that while we had CAPEX planned for the year, given the relative slowdown in the export markets to the extent possible, we are trying to cut CAPEX or at least postpone CAPEX from this year to the next year or whenever the market shows signs of improvement. The company also has changed its focus. After the rate increase, we have really focused a lot on working capital. We did a lot of work in reducing debtors in the second quarter and in the third quarter, we have focus on inventory where we plan to bring down our inventory and by doing this, we hope that not just we have done in the second quarter and maintain free cash flows, we will also find a way of managing free cash flows in the third quarter.

So, this is my brief and I'm open to any questions that any of you may have.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: So, just couple of questions. Sir, one related to exports, can you just elaborate a bit more in terms of the volume loss that we're seeing in exports? If you can divide it between the market share loss, if at all any we had and between the end industry volume loss, how has that interpreted in last six months in comparison to last year?

Srivats Ram: So, actually none of the drop is due to business share loss. Drop in our export business has happened largely in aluminum and in the windmill segment. Windmill segment itself underperformed as an industry globally because of shortage of parts and thereby when our customers make fewer windmills, the number of parts we can ship comes down. That actually came into effect more in the second quarter than the first quarter. The second element is the aluminum wheels and in the aluminum wheels actually the US market was very hot at one point in the first quarter. But in the second quarter, when the commodity prices suddenly went up, it also came down quite dramatically. And at that point, suddenly retail in North America and Europe suddenly fell and customers found that they were sitting on more stock than they were actually selling. They've gone and are going through a period of correction, which we believe based on their feedback will correct itself from December onwards.

Devansh Nigotia: So, in exports, we are largely into aluminum wheel and not steel wheels?

Srivats Ram: No, we are very large in construction wheels and also agriculture tractor wheels. There, there is no reduction.

Devansh Nigotia: There volumes are flat Y-o-Y but it is aluminum wheel which is seeing the drop?

Srivats Ram: No, volume has grown actually. Construction is 24%, but it's 24% of a higher number, 24% of 911 and 24% 1109 is a higher number. The drop has been in aluminum. The drop has also been a significant drop because they've basically cut schedules completely.

Devansh Nigotia: And in aluminum, these were largely passenger vehicles?

Srivats Ram: Yes.

Devansh Nigotia: So, there is a demand and we are largely catering to OEM or aftermarket in exports?

Srivats Ram: Aluminum is aftermarket. So, in aluminum, it is largely aftermarket. So, there, there has been a cut, but the customer said that now demand is slowly coming back and the stocks he will start ordering from December.

Devansh Nigotia: And sir, have you seen any benefits of Europe plus one opportunity because the production cost for them have gone up significantly. So, any benefits if at all we are seeing.

Srivats Ram: No, to start off with actually so if I look at geographies, we have seen negative growth in export in Europe. We are seeing positive growth in the US; of course, very positive growth in Latin America, of course, of a lower base, but fairly strong growth there and reasonable, some marginal growth in Asia Pacific. So, Europe has already been weak. But that said, I actually participated in an expo in Europe about 2 months back and customers have said that there is demand and they are anxious about supply from existing suppliers. But for that to come in to come into supplies, there is a process because these are again trailer manufacturers who are kind of like OEs. So, there's a process of validating the product. So, I think by the time supplies from there starts coming, it'll be the fourth quarter.

Devansh Nigotia: And in case of alloy wheel, what would be the domestic business scale as of now?

Srivats Ram: The domestic business, see, we just started our aluminum plant last year. So, there's a process with OEMs that , you need to be manufacturing for at least 6 months and then they do an audit and then they award you business. We have got awarded a business which starts in May of next year. And we are also in discussion with a domestic OEM whose business will start in August of next year.

Devansh Nigotia: And what would be the current import duty structure for alloy wheel in India? Because earlier this market was largely dependent on imports.

Srivats Ram: No, that's changed. Now it's almost, I will not 100% Indian, but I would say that barring some of the lower volume MNCs, most of the bulk players are buying from Indian sources.

Devansh Nigotia: Is it because of the preference towards domestic suppliers or is it the protection by the government through some import duties?

Srivats Ram: I believe it's also protection. I think it's protection and the geopolitics has changed.

Devansh Nigotia: So, what would be the quantum as of now for import duty?

Srivats Ram: I am not entirely sure. I can probably get back to you later. But it's a public domain number. I don't have it off the top of my head.

Devansh Nigotia: And then how do we see this opportunity over the next 2, 3 years?

Srivats Ram: I think the opportunity is strong because of 2 things. One is the Indian passenger vehicle market is moving more towards SUVs. And when it moves to SUVs, A, the ticket size goes up. B, the aluminum fitment on SUVs is much higher than what it is on small cars. Small cars has a relatively higher steel content, whereas on SUVs, the aluminum content is at least 50%.

Devansh Nigotia: And sir, what do we believe is the right to win of an aluminum wheel manufacturer of one player over another?

Srivats Ram: So, are a few elements. One is of course, cost, scale, and the third one is technical ability. So, technical ability means your ability to design ways, which are either stronger or lighter or a combination there in your ability to offer design or styling related options to the customer. And thirdly, will be your ability to scale when the opportunity comes. These are primarily the advantages. Of course, I can't talk about cost because we're relatively new as a player, but we have built up because of the export business, we've built a capability in both the technical ability to build strength or relative lightness in our product. And we've built the ability to offer finishes and styles, which are different from what is ending in market. So, we're hoping to differentiate on those bases.

Moderator: The next question is from the line of Sagar Parekh from One Up Financial. Please go ahead.

Sagar Parekh: I have 2 questions, one on the P&L side and one on the balance sheet side. So, coming to the P&L side, I wanted to get your sense on the margins for both the businesses, automotive components and industrial components. So, we have seen in Q1 I think, industrial components saw negative margins. And in Q2, while industrial improved, the automotive saw some correction in the margin. So, if I have to look at 1 or 2 years, where would you like to see your margins in both these segments, especially given the fact that our competitor in India is reporting significantly higher margins than what we are reporting? So, just wanted to get your sense on that, if you should give some color on both the businesses margins.

Srivats Ram: Sure. I'll tackle them one after the other. So, the first thing is that, as you rightly said, there was additional logistic cost associated with the industrial product business in the first quarter and also honestly, in July as well. So, for the first 4 months, we had that impact. The other thing is that the steel prices corrected quite rapidly last year. And on the industrial products, the correction mechanism is not a quarterly mechanism. So, we were not able to correct the steel prices. Now steel price corrections have all been made. So, going forward, you will see that the industrial product profitability on an EBITDA basis should be a clean double digit EBITDA going forward. Of course, we got affected because of the logistics cost and the steel cost, but that has been corrected. Coming to the automotive business, the automotive business has many parts. What we believe and that's the reason why we made the investment, what we believe is that as the volumes have shifted from steel wheels to aluminum especially on passenger cars, the margin that we had in the aluminum wheels. But on the aluminum wheels, we have to hit a certain critical volume to be able to get to a healthy type of EBITDA margin. So, we feel that it will take us a year or 2 to reach a healthy level, but, we still expect that probably early next year, we will be at least at breakeven volume. Right now, we are bleeding in aluminum, whatever reasons the automotive performance has gotten affected is because of the cancelations of schedule on the export aluminum customers. So, one, by derisking the business and having domestic OEM as well as the aftermarket, we will have more reliable volumes. But secondly, also the additional volume that the business brings, will also take us closer and past the breakeven point and we should become profitable in early part of the next calendar year.

Sagar Parekh: So, what is the capacity utilization in the aluminum business right now? And early part, as you said that you'll breakeven in the early part, so at what levels do you breakeven and when do you see a full utilization of capacity and possibly announcing some further CAPEX on the aluminum side?

Srivats Ram: Let me just dive as you're talking also asking about the future. On industrial, I only explained for the current period. So, on industrial, we've also made with Rs. 75 crore investment in a machining line. So, machining line works are a conversion cost. So, the asset turnover ratio is much lower, it's more like a one is to one type of asset turnover ratio, but the profitability will be also significantly higher. It's not a question of double digit, it will be a healthy double digit contribution. So, that should help the industrial business going forward, may not be immediately but definitely by the fourth quarter and next year should improve. Coming to aluminum, see, the aluminum plant, there are parts of the plant which are built for a certain scale. So, if you can take furnaces, heat treatment ovens, paint plants, now all those are for 750,000. But you also have machines like the die casting machines and the machining cells. So, the die casting machines and the machining cells, what Wheels India has at the moment is for about 40,000 a month. Our breakeven point is about 33,000, 34,000 a month. We had actually gone up to 24,000 and we were expecting additional volume and this sudden cut took place. So, this gives you an idea. So, once we reach, get closer to that 40,000, we'll make fresh investments and going up to that 750,000, it'll be only in terms of the machining cells and the casting machines. Then once you hit 750,000, again the cycle starts.

Sagar Parekh: So, at full scale, where would you like to see the margins on the automotive side assuming that in 2 years aluminum will possibly go to about full utilization?

Srivats Ram: Aluminum at full utilization I'd like to believe based on the experience of others that it will be a double-digit EBITDA business. On the steel wheel tractor, the tractor and construction is already a double digit EBITDA business. Tractor with more of the export business coming in will become a double-digit EBITDA business. Commercial vehicle may be on the single digit but maybe higher single digit EBITDA. That's how we see it.

Sagar Parekh: So, about 20% of your business will remain high single digit, and about the rest of the businesses including steel, tractor steel, construction vehicles, as well as aluminum will all be in double digits as well as in construction.

Srivats Ram: Yes. Construction incidentally is already there. The aluminum needs to ramp up to bring auto back up and on tractor we need to increase our exports a little bit.

Sagar Parekh: And my second question was on the balance sheet side. So, you mentioned that the interest cost has significantly been shot up, A, due to obviously the higher increases in the rate as well as you mentioned that the debt has also gone up.

Srivats Ram: Yes. So, for example, if I look at the interest cost and compared Q2 Y-on-Y, there's about Rs. 8 crore to Rs. 9 crore worth of increase. Out of that Rs. 3.9 crore is due to rate. the balance is due to increased borrowings where the borrowings are all largely working capital borrowings.

Sagar Parekh: But on the sequential side, if I look at from March quarter to now, our borrowings have actually come down about Rs. 30 crore, Rs. 35 crore, if I'm not mistaken from 845 net borrowings.

Srivats Ram: It should come down further because right now typically Wheels India, whenever we get a bunch of CAPEX, we would retire the existing loan and then we'll roll it over for the fresh CAPEX that comes in. That's typically what we've been doing. This time, we're trying to limit the CAPEX so that we don't do the rollover.

Sagar Parekh: So, my question was that in spite of the debt coming down in the last 6 months, the interest cost on a quarter-on-quarter basis actually has seen increase. So, can that be completely attributable to that rate increases that you're talking about?

Srivats Ram: No, because there is also bill discounting that takes place. So, if I look at the debt per se, debt has come down, let me be honest, everything told, total debt has come down, but it has not come down by that much. We've attacked the debtors part of it or rather largely attacked the debtors, but we still have some work. For example, we are doing looking at doing factoring without recourse with some of our export customers to ensure that the payments come on time quickly. But we are also going to do major correction on inventory. So, inventory, like I mentioned, aluminum is sitting on a hell of a lot of inventory and schedules are very, very low. So, when the volume comes back, the inventory will go away. Similarly, on the wind business, when the business suddenly stopped, it literally went from air freight to ship. So, there again, we believe that we'll do most of the correction by December. And on the wind business, also, incidentally, we built in Vande Bharat, the train. Vande Bharat is a new version of what used to be called Train 18. So, we had actually built a prototype bogie frame for Train 18 many years back. The business didn't come. We were just sitting on that material and stock. Now this Vande Bharat has come, we've submitted our samples. Hopefully, we get some business in the fourth quarter and we can deplete our stocks then.

Sagar Parekh: So, you're saying that within the wind segment, we are expected to get some business from Vande Bharat?

Srivats Ram: Yes, that facility. It's a railway this thing, but that facility had built a prototype quite a few years back.

Sagar Parekh: So, is there like a bidding process or something for this?

Srivats Ram: Yes, there'll be a bidding process. We're confident of getting some business. We'll have to wait and see. Team is confident of winning it.

Moderator: The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Just a few questions. One was on the wind side, like you mentioned, so I mean the investment that you're making is for steel machining, steel castings, or bronze castings, anything there?

Srivats Ram: No, these are ferrous castings. But just to give you an idea, the smallest casting that we're talking about machining is 3 tons, the largest one is 34 tons. So, these are very large castings. So, nothing you can think of. Some of them, you don't use a crane, you use a large moving platform.

Sonal Gupta: So, these are I guess, large wind turbine rotors or whatever.

Srivats Ram: Yes, the hub related part, sharps, bearing related casings.

Sonal Gupta: And what is the outlook for the wind side that you see in the next six months?

Srivats Ram: So, this year, and again, I'm, again only talking largely from public domain because a lot of our customers are listed and we only get what everyone else gets. So, they are saying that while they had backorders, the production was hampered due to supply chain constraints. They're slowly coming out of the supply chain constraint. So, they have at least indicated to us. This year we had a degrowth. We expect a degrowth in the windmill business out of all the businesses to the extent of maybe something like 20% or just short of 20% degrowth. Next year, we see fairly significant growth coming because according to them, they have debottlenecked some of the challenges that they had. So, they're saying that the business will come back in FY23. FY24, some of our customers are entering or rather we are going to start supplying parts for the offshore wind, which again, is a growth opportunity.

Sonal Gupta: But just to clarify on this, so do you supply within India to the OEMs and then they manufacture in India and export it? Or are you exporting directly your components.

Srivats Ram: So, we're doing 2 things. You're very right, because most of the MNCs in India actually produce product for export as well. There are some, of course, like Siemens Gamesa who are actually also making it for India, but the others also export a fair amount. So, most of our domestic is actually for export by the windmill manufacturers. But direct export is also there. We do have direct exports to at least to the large windmill manufacturers globally.

Sonal Gupta: And these new orders are for export or they are domestic?

Srivats Ram: These are the both export and domestic, because some of the domestic again, as I mentioned, it's for exporting.

Sonal Gupta: And sir, the other thing was on the aluminum castings, like on the passenger vehicle side, just wanted to understand like you mentioned, you have inventory. So, is it high cost inventory? Because again, aluminum prices came down pretty sharply. Is that also weighing on your margins currently?

Srivats Ram: No, that's very much point. As a matter of fact, when we examined under recovery, in the second quarter aluminum, there was severe under recovery, because of the fact that it went up and then sharply dropped. We don't have great orders up to December, but we are sitting on some inventory, but it should be exhausted by the end of December. So, we will be back to an even keel from January in terms of costing and pricing,

Sonal Gupta: Even at the current order rates that you're seeing?.

Srivats Ram: Yes, because we have visibility now for November and December, based on that

Sonal Gupta: And overall, how do you see the domestic side in terms of outlook? Because, I mean, if I see the medium and heavy commercial vehicle, production was down in the second quarter, slightly I mean, down in single digits. But how do you think, I mean, are we seeing further slowdown in +the third quarter on a sequential basis?

Srivats Ram: So, third quarter is better, but let me say, CV is typically when it has come up, it has been a hockey stick. It is definitely not a hockey stick. And I think also given that you had Dussehra and Diwali in the same month, October was kind of slow from a production viewpoint. We, of course, would have sold out our vehicle. From production viewpoint, it was relatively slow. So, we have to see how November and December takes place. A couple of points that I'd like to mention. One is I think the road infrastructure spend so far this year has been quite low. However, the Finance Minister recently said that they are going to be spending a lot on infra and out of fiscal discipline, they'll find the funds to spend. So, if that government CAPEX takes place, road infra actually has a bearing on us in 3 segments. Of course, road construction equipment in India, commercial vehicles to carry all the overburden of the excavated Earth. And thirdly, air suspension because the commercial vehicle also end up being multi axle vehicles which have lift axles.

Sonal Gupta: And just lastly, in terms of like you mentioned on the interest cost and on the factoring and receivable factoring, so for the domestic customers, what are your receivable terms?

Srivats Ram: So, it varies from segment to segment.

Sonal Gupta: I mean, like the one on auto side.

Srivats Ram: So, it varies, it's 30 days, 45 days, 60 days, typically, anywhere in that range

Sonal Gupta: 30 days to 60 days.

Srivats Ram: Yes.

Moderator: The next question is from the line of Rajat Setiya from ithought PMS. Please go ahead.

Rajat Setiya: Sir, just wanted to check, what is our plan for deleveraging the balance sheet? By when do we expect to be term loan free?

Srivats Ram: I can tell you what our plans are for the next, say 12 months, and then give you a hint of what is going to happen. So, term loans have actually come down. Most of the debt that we carry is working capital. But you're right, there is still term loan. We had actually planned this year itself to do deleveraging. Unfortunately, with the additional logistic cost in the first quarter and the interest hikes that took place, we were not able to build up the surpluses that we thought we would build up in the first half. But we are going to be much more prudent in terms of CAPEX, of course, in the second half, but also in the coming year. Because I think ultimately, I do not want to take additional debt for CAPEX. Unless we are seeing some buoyancy in the market, we would be very reluctant to take on additional term loans. In normal circumstances, I mentioned to one of your colleagues, we would have rolled over term loans, but now we are also trying to not do that and manage with internal accruals. So, there's a focus on free cash flows, operational focus on free cash flow in each of the businesses. And we hope by having that type of review mechanism, it will improve.

Secondly, the margins will improve. As I mentioned, some of the segments, notably the industrial segment, there was under recovery and now that is beyond us, past us. So, with the material cost under recovery not being there, your margin should also improve significantly. I'd also like to mention a couple of businesses, which have been relatively small in the recent past, which are growing. One is the air suspension business, which is not capital intensive. So, we have a non-capital-intensive business that's growing. Again, what you bring to the bottom visa vie what you put in, that equation changes. The other business which for us is growing and which is now going to become profitable or is profitable, because the scale has been achieved is fabrication for the construction industry.

So, both of these, I think should see a turnaround. And the windmills, the Rs. 75 crore investment that I mentioned about, that should start breaking even and earning its money from the fourth quarter. Aluminum hopefully, in the early part of next year will turn around. So, once a lot of these businesses which have earlier been hampered start turning around and some of them are already doing, we will start seeing the profitability increase for the company.

Rajat Setiya: The other question is how was the volume compared to the last quarter in this quarter?

Srivats Ram: You're talking about Q2?

Rajat Setiya: Yes, Q2 versus Q1, I just wanted to ask only about the export OEMs.

Srivats Ram: I'll just check the number. I have a screen in front of me so that I don't give you an estimate and give you an actual number. I'm sorry I have only H1, but my recollection is that the growth was about something like 9% in Q2 vis-à-vis 9% to 10% in 2, Q1. But I am concerned that that trend will reverse for two reasons. One is the while we talk about revenues, assuming price neutrality, there's also been a steep reduction in fuel prices. So, there will also be the effect of that affecting like top line, while it's good for us from our working capital and honestly even a margin viewpoint. In terms of top line, that may come down. So, I think that third quarter is definitely going to probably, as we don't see any real buoyancy in the third quarter, as of now, we expect that the third quarter could be lower in terms of top line, doesn't mean it has to be lower on the bottom line.

Rajat Setiya: So, this 9% you mentioned is the volume growth or the top line growth?

Srivats Ram: No, it is a volume growth because actually, exports also grew, despite everything that I said, which is what I'm trying to tell you. Export, April was okay, May was better, June was strong, July was strong, and then August strong. It was very, very, very disruptive. From August 15, literally the things stopped. But we still showed growth in Q2 vis-à-vis Q1.

Rajat Setiya: And sir, if you can spend some time, I'm actually new to the company. If you can spend some time on explaining a little bit about your wind business, railway components and the air suspension parts business that we do, I mean, what exactly do we do there and what kind of market opportunity exist? How is the competition learnings there?

Srivats Ram: So, I'll try to explain all of this. So, I'll start with the air suspension business. There are 2 parts to the business. One is the bus air suspension, A, lot of buses have and especially a lot of the SU (State Govt) buses which come on tender, not all of them, but there's a fair number that actually have air suspension fitted. Air suspension is a module which is fitted onto the bus to improve the ride quality of the bus. So, it's something that Wheels India had pioneered in the 90s. It became an OE fitment from 2000 onwards, and while we do some retro fitment, we largely supply through the OEs. So, we see this business now picking up because we are seeing lot of the STU orders coming in. So, I think the next 12 months is going to be strong on STO orders not only for conventional but also for electric buses. Because we are also there on electric buses. B, there is also lift axles business which is based on multi axle-vehicles, whereas for the South/west based commercial vehicle OEMs, we are the supplier for the lift axle suspension. And as that market grows, the air suspension business will grow. Air suspension also has an aftermarket for the bus related parts. And there given the large vehicle path, but we have a reasonable volume which is there. That is the air suspension business.

On wind, we essentially had –2 types of businesses. One was fabrication and machining, which are large fabrications which form part of the nacelle of the windmill. Nacelle is where the drive of the windmill is. You have a tower and then you have a drive on top. So, large parts of the drive of the windmill were being manufactured by Wheels India using fabrication and then machining. Parts are quite large, 3 tons is fairly standard, some go up to even 6 tons. So, these parts are fabricated by us and then precision machined. We also have another component which is bent and machined. That is not fabricated which is distinguishing. These are the 2 types of parts that we currently make. As I mentioned, we've just started getting into casting and the machining of castings. So, there will be the three types of businesses that we have in wind. Wind is largely an OEM business. All our customers are MNC OEMs. For about 4 four of them, we are supplying in the country. And 3 of them we're also exporting. Now in addition to windmill customers. We're also now examining whether we can service large tier 1 of windmill customers. So, that is a business that we are actively pursuing. And we've had some early, success in that. Hopefully, over the next year or so, we can build that business. On Railways, really the Train 18 was something having a faster train with something that caught our fancy and because we have the similar equipment that makes windmills can be used to machine the railway part. So, we made a prototype for that. And hopefully on Vande Bharat it's successful and we get some part of that business and that grows. But the divisions main focus will be on the Windmill sector The railway sector is good one day, but it is not overall our focus and we get some part of that business. And that grows. But the divisions main focus will be on the windmill sector. The railway sector is a good add on, but it is not really a focus.

Rajat Setiya: And what exactly are we going to make in railways, what components?

Srivats Ram: We make the bogie frame for the coaches.

Rajat Setiya: And sir, last question about first of all, thank you so much for the detailed commentary here. The last thing about our margin profile, if you look at our margins over the last many years versus our other listed competitor, our margins are on the lower side. Anything you can help us understand what's the reason for that?

Srivats Ram: I think one is, of course, getting to scale in some of the newer businesses like the aluminum business, where we breakeven. So, we have a number of business which are new, have to breakeven. When they breakeven they become profitable. So, we would have to wait for that to come to start to see some margin expansion. Of course, there are also cases where we've had under recovery in the recent past, which is no longer the case. But in the recent past, we have also been hampered a bit by that. And, of course, as I mentioned, we had that extraordinary logistic cost impact in the first 4 months. So, these things and the scaling up of some of the investments that we make should help us come out of it. And also, I think the cycles turning on some of the segments like the air suspension and fabrication for construction. We start seeing those become a fairly healthy EBITDA and faster growing segments.

Rajat Setiya: I think you broadly alluded to the latest scenario, I mean, last 1, 2 years. If we look at last even, let's say 10 years of our performance versus the competitors' performance, there is a gap of 2%, 3% in terms of margins at the operating level.

Srivats Ram: The products are different. So, the product mix is slightly different. He's also expanded quite successfully in scale in aluminum, which is giving him a significant advantage in recent times. But the product profile is quite different. So, I can only give you my plan on how I plan to expand my margin. I don't know what his strategy is going forward.

Rajat Setiya: I just wanted to understand the past. I mean, you've very accurately explained the strategy for the future.

Moderator: The next question is from the Keval Shah from Jeetay Investments. Please go ahead.

Keval Shah: Sir, my first question is regarding alloy wheels, you mentioned that the real right to win comes with the cost and the scale. So, sir then, how have we been able to make a mark in exports compared to competitors in China, who really have that scale benefit?

Srivats Ram: So, couple of things. One is, we're not going for the plain vanilla type of aluminum wheel. We're going in for slightly premium aluminum wheels, where the finished requirements automatically means the number of people who can make it get limited. Of course, there are also Chinese manufacturers in that wheel. One major change that has happened in the last 3 years is actually American companies were so happy with Chinese that they would not look at another person unless you're so much less than the Chinese. Now that has changed because of the geopolitics, which is there currently. And because of the changing geopolitics, they are more willing to look at Indian companies. They also have you know, duties on Chinese products and all this makes an economic sense for them to buy from us.

Keval Shah: So, net of duty basically, we as Indians, Indian players are able to sort of compete with China on a similar set of a product, maybe not the plain alloy wheel, but any premium type of products.

Srivats Ram: Yes. The fact that there is duty on Chinese product helps us compete definitely.

Keval Shah: Sir, second question was with the kind of problems that Europe is having right now, because of the escalated power costs and you did mention that you've had conversation with a couple of OEMs maybe there who might be want to shift their supply base to a player like us. Do you think that those conversations are sort of happening materially and things might change? And how big opportunity do you think it can be over the period of time for us?

Srivats Ram: See, I've been participating in the shows in Europe for the last 20 years. And typically, you're right, in a show everybody's everyone's friend. And then when you go back, you don't hear from them. But this time, I think, they seem to be genuinely concerned about getting supplies from existing players and about the escalating cost of supplies. So, I think that there is an opportunity. Again, we'll have to wait. They don't function for that mid-December to early January. But definitely a couple of them were even interested in new products that we had. So, there should be something that comes out of it. When you go on a marketing thing, it's all very positive. So, I wait for the orders to come before I can tell you something for certain, but it was positive definitely.

Keval Shah: And sir, typically how much time does it take for the engagement to sort of materialize and to sort of relationship to start from the time when you --

Srivats Ram: 6 to 8 months for these people. If it is like OEM first time and all that, it can be 12. That is if it is a new OEM and first-time engagement, it can be 12 months.

Keval Shah: And sir, last question was on the air suspension category. Sir, can you please explain us on the market of the air suspension in a geography like India and how big an opportunity do you think it can be for the company going forward?

Srivats Ram: See, it's something where we are also already a fairly large supplier into the market. There is competition. There is Jai Parabolic, WABCO and Hendrickson. So, there are other players who are already there in the business. I think the opportunity on air suspension depends on really how much the government is willing to spend on buses because while you have private buses, the government orders are still important, and that depended on government spending money. But recently, government is willing to spend significant amounts on electric buses and things like that. If I hear what they're saying, it sounds quite exciting, but probably wait and see how it actually pans out.

Moderator: The next question is from the line of Prolin from Goldfish Capital. Please go ahead.

Prolin: Two questions on your export. Now, one is on the non-alloy export. Could you give us some color on what is the share of non-alloy exports and how are that panning out? Where I'm coming from is we had a tie up with Titan Corporation if I'm not wrong few years back. I mean and now we no longer are with them. And I believe this was for the non-alloy part of it, non-aluminum part of it, if I'm not wrong. So, how is that helping us to probably grow in that non-alloy export market?

Srivats Ram: Sure. I'll try to try to give you an answer. This is slightly long, but please bear with me. So, there is a construction wheel side and agricultural tractor wheel side. So, on the construction wheel side, Wheels India is already a significant player, but we are not there with 3 or 4 large OEMs. So, those 3 or 4 large OEMs, we've started discussions. In fact, even today, one of my colleagues is in America visiting one of them and that should come into fruition hopefully in the coming year. That's on construction. On agricultural tractor, earlier when Titan was there, the tractor guys used to say you are part of Titan Group, so I cannot give more than this percentage to Titan Group. So, it became like that. Now that we are not related to them, they are open to higher percentage of business coming to us. But it calls for a lot of follow up. I think the 1 OEM with whom we are already there, it probably becomes easier because trust and relationship has been established. But on the others, it will take effort from our entire team, including myself, to meet them and bring it into fruition. So, it's a 1 year type of journey. And they also want to know are we serious about this long term. So, it'll also call for some top management meetings with them.

Prolin: But just a follow-up on this part only. Aren't we trying for this for quite some time now, because I remember in the past also, when you had the conference calls once in a while, you mentioned about this, we are in discussion with some of these customers and that relationship needs to fructify. So, just wanted to check what is the reason for that delay? Because I thought that, you know that catch for Titan is not there for us.

Srivats Ram: I can answer you. So, first of all, we bought out Titan only during COVID. So, before COVID, we did not have an opportunity. So, it's only after COVID that we are getting opportunity. We've been able to make progress with the one OEM who we were already supplying, but to a lesser extent. Now he's looking at us across a wider range of products. On the other 2 OEMs, we've already quoted, won RFQs, quoted, done everything, validated the product. But they will start with 1 plant, try it for 3 months, no problem, then they'll bring in another plant. So, it happens in a phased manner. So, I feel for a lot of this to come into play it will take to next year. So, it's a question of share of business. So, they will start you with 20% share of business. Then they'll move you to 30% for a particular plant. So, that's kind of how it moves up. So, it is all moving. Right now, the discussions have been more in the Americas, that is US, Mexico and LatAm. But we are also trying to have discussions with Europe because Europe, of course, they're tougher customers, but the price advantage could also be significant. We'll have to see. It depends on when the customer is ready to try us first. But it's moving. That's the only thing I can see.

Prolin: You were saying something, this is all work in progress, right, is what you wanted conclude with.

Srivats Ram: It's work in progress and let me tell you the tractor exports continues to grow. Even now if you look at it quarter-on-quarter Y-on-Y its growth.

Prolin: So, now coming to the alloy wheels export part, you mentioned that you are present in the aftermarket, right? So, how does this business take place? Is it through distributors? And will they control the brand? I mean where do they want to take supply from? And how easy or difficult is to get into export OE part of the alloy wheel segment?

Srivats Ram: So, 2 things, let me first tell you that we are currently looking at export aftermarket and domestic OEM, we're not looking at export OEMs as yet. On the export aftermarket, our customer is the largest distributor of aluminum wheels in the world. He's in multiple geographies. He has his own plant. He's been buying largely from China, he is also buying from us. And it's a relationship where the relationship is with the Chief Operating Officer and the Chief Executive Officer at their level. So, how did we get into this you asked me, we were a large supplier of forged aluminum wheels to the same party. Because he had 5 to 6 years of experience with us in forged aluminum wheels he decided to commit a chunk of business for cast aluminum.

Prolin: And any particular reason why we don't want to get into OE right now? I mean, is that a slightly more long-term kind of process? I mean, any reason.

Srivats Ram: It is a long term process and to be honest, a lot of the MNC overseas will say, if you're not even supplying an Indian OEM, why should I buy from you. So, we'll have to start supplying the Indian OEM. And hopefully, once we do that, we will get opportunities. We have already I mean. As I mentioned, we've already won some business with MNC OEM in India. And hopefully, if they have a positive experience with us, we could get an opportunity in export as well.

Prolin: And sir, this last question would be, I mean between aluminum and ferrous, right, what would be the asset turns look right?

Srivats Ram: See, I think aluminum the asset turns are much lower than what they are on scale. It's more capital intensive. For the same scale, it is more capital intensive.

Prolin: So, where I am coming from is you had mentioned that the margins in aluminum would be high single digits.

Srivats Ram: No, I said aluminum should be a double-digit EBITDA, the CV business is a single digit.

Prolin: Correct. I was looking at from a ROCE perspective, right, for both the division. I mean after accounting for higher margins in aluminum and low asset turns, still the ROC would be higher for aluminum business or would it be at par with the steel business.

Srivats Ram: It depends on what scale you get to. So, once you to a higher capacity utilization, overall capacity utilization, your margins will be higher.

Prolin: So, once that optimal capacity utilization will be reached, aluminum ROCs would be higher than steel ROCs, right? Is this the fair way? Do you get it?

Srivats Ram: Could be. I'll be honest, I've not calculated. I'm just telling you what I feel.

Prolin: And lastly, on this domestic OEM market for the alloy wheel, are we also looking for that, I mean are we trying there also because you mentioned about MNC OEs?

Srivats Ram: Yes. So, I meant MNC in India. So, we have an MNC in India whose business we won and we're close to also winning Indian OEM in India business, which we are saying will come in the second quarter.

Prolin: And just typically, I mean when you say winning in the business, it's more to do with we being a preferred supplier for their new launches, right? I mean that's how it is connected.

Srivats Ram: They give you a letter of intent. Then they test you commercially. Then they ask you to prove technically that you can make the product. And then they give you a clearance. They you toll up for it and then you give them samples. They clear the samples and then we get into the production. It's a process.

Prolin: But it is model specific, right. I mean, am I correct, this entire segment is model specific.

Srivats Ram: It is model specific, correct.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Srivats Ram: Thank you very much for your active participation and interest in our company. We will continue to update you whenever we get such opportunities to interact with you. It's been quite a productive session at least on my end. I hope we've been able to adequately answer your questions and we continue to looking at working together with the investor community going forward. Thank you once again. Wish you all the best for the festival season although we are past the end of it and have a good day. Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.