"Wheels India Limited
Q2 FY2024 Post Results Conference Call"

November 01, 2023

ANALYST: **MR. BASUDEB BANERJEE – ICICI SECURITIES**

MANAGEMENT: **MR. SRIVATS RAM – MANAGING DIRECTOR – WHEELS INDIA LIMITED**

MR. P. RAMESH – CHIEF FINANCIAL OFFICER – WHEELS INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Wheels India Limited Q2 FY2024 Post Results Conference Call hosted by ICICI Securities. As a resultr, 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 now hand the conference over to Mr. Basudeb Banerjee from ICICI Securities. Thank you and over to you Sir!

Basudeb Banerjee: Thanks Rohit. Good afternoon and good evening all participants and thanks to Wheels India Limited management for giving us opportunity to host the call. We have with us team represented by Mr. Srivats Ram, Managing Director and Mr. P. Ramesh, Chief Financial Officer. So without wasting any time over to you Mr. Ram!

Srivats Ram: Good afternoon everyone and thank you for joining the investors call. Wheels India reported a net profit of Rs.5.24 Crores for Q2 as compared to Rs.14.53 Crores for the corresponding quarter of last year. The Q2 profit was impacted by one-off expenses notably a one-off charge for pre-delivery inspection charges and a few other expenses. Secondly, I would like to point out that the amalgamation of Sundaram Hydraulics Limited with the Company has been completed. Third point that I would like to mention is that if you look at the half year we found domestic volumes to be at a muted level. Please note that this is standalone company where honestly the domestic market for us is mainly the commercial vehicle, tractor wheels and air suspension system. It was muted in the first half of the year and the export business on the other hand had a decent growth, despite the slowdown in Europe ; Asian markets were quite strong. For the balance part of the year we expect that the CV market should be better and air suspension will also be better going forward.

A few other comments I would like to make. Wheels India Board has cleared a proposal to move usage of renewable power in Wheels India from 26% to 75% over the next year-and-a-half, say by end FY26. Second point I would like to mention is that to service our overseas business, we are going to start wholly owned subsidiaries in US and Europe which we feel are required to service the growth opportunities we see in these two markets. With that, I will be open to taking any questions or any clarifications that investors may have. I would also like to say that the investor presentation has been uploaded on the website. Notably there are four slides that covers the financials for the quarter and the half year, which are represented in that. With that, I now conclude my opening remarks and I would take any questions that investors may have.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen we will wait for the moment while the question queue assembles. The first question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Thanks Sir just to understand at current juncture where passenger vehicle market growth is also despite absolute volumes being high is not even mid single digit, two wheeler overall industry growth in first half is also not encouraging and commercial vehicle industry as a whole have elements of cyclicality, so what is your view on the overall target industry for you in the coming 12 months?

Srivats Ram: Yes so I would say that the agriculture tractor market has been a negative performer and I do not see that changing while the rains have been good, the timing is questionable so we do not see the rural situation improving dramatically. On commercial vehicles I see probably if the infrastructure project execution picks up stream, post monsoon probably, I will say the commercial vehicle having some improvement compared to the first half. On passenger cars side Wheels India Limited is mainly on the steel wheel. On the steel wheel with SUVs increasing, small car business going down, volumes are being muted. On our aluminum wheel business one point that I would like to mention; We had mentioned earlier that we would start one OEM in Q2 and we did start but that OEM is a new entrant and the volumes have not been as expected. We expect the second OEM who is a successful manufacturer in the Indian market to probably start end of the Q4 or early Q1 of next year.

Basudeb Banerjee: Thanks. I will come back.

Moderator: Thank you. The next question is from the line of Priya Ranjan from HDFC AMC. Please go ahead.

Priya Ranjan: Thank you Sir. Just one thing on the capex side why are you highlighting Rs.200 Crores of capex I think the aluminium plant is not fully utilized as of now?

Srivats Ram: So let me just comment on that. Do you have any other questions I can take all of them together?

Priya Ranjan: Yes so and then the wind mill, etc., are you also looking at more from casting angle or it is mostly you want to continue with the fabrication, etc., in the wind side?

Srivats Ram: So let me try to answer your questions. So you are right we had indicated earlier that the Board has cleared capex of up to I think more than Rs.200 Crores in the current year. We have so far spent only about Rs.72 Crores in the six months and it is expected that in the full year the capex may only be about Rs.150 Crores to Rs.160 Crores so there is definitely some amount of deferment of capex; we hold back on some capexes. There is nothing which is Greenfield everything is Brownfield and adding to existing capacities, so as the volumes have not increased significantly we have also been very circumspect and are only adding capex to the extent that the cash flows and the finances of those particular businesses allow. That is on the capex side. Coming to the wind business we are not really adding any capacity in the fabrication, conventional side of the business. On the casting and machining we have actually scaled up quite considerably, we have been profitable in the Q2 and in the Q3 the volumes are going up further so we see that probably as a growing segment even if the windmill market globally does not grow there is enough of demand with the existing casting supplier; he himself has got ramp up plans, so we would align with his ramp up plans which are also partially linked with de-risking his geographical footprint.

Priya Ranjan: Any idea or any thoughts on going into the bigger casting for the entire housing, etc., for the gear box, etc., because I think there is a lot of demand on that side and mostly the casting for those is coming from China also?

Srivats Ram: I do not believe that there is any plan. The castings are made by our casting partner and then we are doing the machining; so we are actually doing a conversion operation. He is quite full up and he has got a heavy demand, so as a result of that I think even his existing plans if he executes we should see this business increasing at least twofold in the coming year.

Priya Ranjan: How is the outlook for exports market Europe?

Srivats Ram: Yes it is surprising. The last time we had interacted I said that we are looking at 20% growth in export and for the first half we have been able to manage but Europe is very dull, which has been made up by strength in North America and Asia, so for us actually the markets that have done well have been Korea, Japan, US, and maybe Thailand to some extent whereas Europe has been underwhelming. Even LATAM has been very muted, but we have made a fair amount of ground with some of these OEMs, so we also see in the coming year especially on the off-road that is construction we see demand coming in even going into the next financial year. A couple of other points I would like to mention are air suspension demand for buses is very strong at the moment. It is normally strong around the time of just a year before elections; so air suspension's demand is very strong, actually Q3 and Q4 will be strong. The other area which probably I would like to mention which is negative is that on the mining side of the construction wheels there has been a cut in schedules notably in the Q3; it will get restored thereafter because there is some de-stocking. One of our large customers is looking at minimizing his inventory for this year end which is December ; so there will be some de-stocking that happens in the Q3 which may affect production on our side but from Q4 onwards it will be restored.

Priya Ranjan: Understood Sir and what is our ambition so I am just trying to understand what is our ambition in terms of the aluminum wheels, etc.

Srivats Ram: So couple of points. We started off with export-oriented business; we are currently exporting 23000 odd wheels. We started OEM supplies in the Q2, unfortunately the OEM offtake has been very, very underwhelming being a new OEM; however, the successful existing OEM that we are going to start supplying maybe in end of Q4 or Q1 where there has been movement on a positive side. We have also been audited by two of the top three manufacturers in the country; so once you get audited and your system gets cleared thereafter RFQs come, so hopefully we start seeing orders coming in. We have so far LOIs from two customers; one we have started supply and the other one should start early next year.

Priya Ranjan: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ganesh Shetty an Individual Investor. Please go ahead.

Ganesh Shetty: Yes Sir good evening and thank you for the opportunity. Can you please throw some light on margin improvement because over a period of time our EBITDA margins have been very low and our net profit margin has been very, very dismal?

Srivats Ram: I agree with you; let me reflect on that and give you my answer. So if you look at the current quarter where the the profits were at a very low level there was a one-time charge for pre-delivery inspection which was to the extent of Rs.10 Crores. This is something probably that should have come earlier but there was a negotiation with the contract manufacturer in Europe that took time to finalize which is why we have accounted it in this quarter, but this is really related to last year's problem that is one- time. Other than that there is almost Rs.5 Crores of onetime costs which have been reflected which are of various natures, old wheels being brought back, and under recovery of cost which had been considered. All those points, numerous points, taken together is about Rs.5 Crores, so there is about Rs.15 Crores in the Q2 accounts which are related to these onetime costs . Further in terms of manufacturing in our commercial vehicle line we actually had a major layout change and there is some disruption of production due to that in August and September. We are now back on stream so we will start seeing higher volumes and also the recovery of cost in that business will improve. Third point is that we are looking at pricing wherever we have lower realizations we are trying to see to what extent we can improve our realizations by talking with our customers and the last point is related to manpower cost. We are looking at some kind of optimization and rationalization of manpower across the various plants, so all these steps are being taken. I think the Q3 exports are low, probably the Q4 onwards you should start seeing the older type of margins what we used to have earlier you should start seeing them coming forth and in the next year it should follow up from them.

Ganesh Shetty: Yes thank you Sir for the detailed explanation and I also wish to know whether we are doing something for interest cost reduction because interest cost is also very, very high during these quarters so is there any plan to refinance our cost like right issue or preferential allotment, by such way that interest or the deposit amount can be reduced and we will be able to pay lesser amount of interest on our liability so this would be long pending as a shareholder I feel that this is a very essential part of our operational efficiency. Can you please throw some light on this Sir?

Srivats Ram: Sure I will do. First of all as I mentioned one reason why our our capex has also been lower is that we have tried to manage the capex without actually going in for any additional borrowing so one way of reducing the interest cost is to reduce your debt amount. Further beyond that I think a lot of work has gone into working capital. Before I hand over to Mr. Ramesh to explain in detail, what we have done, let me say at the moment there is no plan for equity to be brought in, because normally we would bring-in equity if we felt that there was some expansionary activities which are taking place, but currently there is no such plan but Mr. Ramesh perhaps you can also reflect on his question and try to answer what we are doing to reduce interest cost.

P. Ramesh: Good evening. One of the major reasons for the interest cost increase in absolute value is the rate hike like if I give it comparison between the last year first six months with the current year first six months the rate has moved up by 1.5%. Basically as you will be knowing that most of the repo rates impact have come in the second half of last year so the full impact is coming in the current half year so that is the major reason for about 1.5% increase in the rate and in terms of reduction of interest cost, the facilities which we have been using ,we were able to reduce it to an extent of about Rs.150 Crores and out of that term loans/WC limits we have reduced about Rs.37 Crores in the current six months: another Rs.35 Crores to Rs.37 Crores we will be repaying it in the second half and by that the fixed loan amount in the overall borrowing will come down ,that is one thing and as our MD was saying the working capital reduction is an ongoing exercise and hope to reduce the working capital further in the current half year and now if you look at the free cash flows for the first six months it is about Rs.66 Crores positive cash flow after covering the capex and we are hoping to do at least the similar amount in the second half and with that I think we would be able to avoid further borrowing to finance our capex so with the improvement of profitability which we are expecting, I think we should be able to reduce the facilities over the period of next 18 to 24 months considerably.

Ganesh Shetty: Yes Sir that is fantastic and it will really help us and Wheels India being a very old and reputed company do we have any opportunities for monetizing our assets in reducing our debt so I am just asking whether there is any possibility in the future regarding? That is all from me Sir. Thanks a lot for the opportunity.

Srivats Ram: Thank you very much. Definitely we will continue to look at opportunities like that and the minute that we have identified one we will get back to you.

Ganesh Shetty: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rajkumar Vaidyanathan. Please go ahead.

Rajkumar V: Good evening Sir. Thanks for the opportunity. Sir I have a couple of questions so the first one is on the cash flow, sorry to labor on the same point, so basically I want to understand this Rs.200 Crores that we mentioned that will be funded through internal accruals just wanted to know how much will be coming from the working capital efficiency and how much will be through the profitability?

Srivats Ram: Ramesh will you take this question or do you want me to take it?

P. Ramesh: If you can answer it is fine.

Srivats Ram: Yes so one is as against Rs.200 Crores as I mentioned it will be more we expect it will be more like Rs.150 Crores to Rs.160 Crores out of which Rs.72 Crores is already completed. . There will be some amount of debt reduction but I think working capital improvement will also enable us to manage it and I think the EBITDA improvement in the Q3 and Q4 which should come as we had specific onetime cost in this quarter that should also enable us to fund the capex without going into additional deb. Ramesh you want to add anything to this?

P. Ramesh: Yes the cash from operations and working capital in the second half would be close to Rs.100 Crores or it could be a little more than that which will cover our capex and our loan repayment obligations for the second half just to give you a broad number.

Rajkumar V: If I understand you correctly so you are saying going forward there will be a capex, growth on sales but there will be a significant margin improvement is that understanding correct?

Srivats Ram: I would not say significant margin improvement I will say definitely the Q4 you should see margins going back to what it was prior to last year. Last year we got affected notably with the pre delivery inspection so prior to that what the margins have been in a normal year of course not the COVID year, in a normal year, what it used to be, we should probably go back to that.

Rajkumar V: I think in the previous call you mentioned 2018-2019 operating profit numbers that numbers we will be able to achieve?

Srivats Ram: Ramesh I do not know whether that is correct. You want to comment Ramesh?

P. Ramesh: I could not get this question.

Srivats Ram: He is asking the EBITDA levels that we are at seem to be very low so I said in the Q4 we should get back to a more normal level of EBITDA so he is asking would it be in line with 2018-2019.

P. Ramesh: Yes it could be.

Rajkumar V: Yes because Sir I am just going through your previous call notes so I think one of the questions you mentioned that we are looking at achieving the 2018-2019 operating profit numbers by the end of FY2024?

Srivats Ram: Yes I would say here probably what we mean is EBITDA percentage would be something similar. Ramesh do you have a check on this if you can just confirm. The investor is correct he is only paraphrasing what I have said I am just asking my CFO to check.

P Ramesh: I do not have that 2018 numbers right now before me.

Srivats Ram: The EBITDA has been kind of hovering 4% to 5% type of level we expect it to go back to maybe a 7% plus level by the Q4.

Rajkumar V: That is what you did in 2018-2019 Sir so that is why I was asking?

Srivats Ram: Yes I did not have automatic recall on the percentage which is why I hesitated but yes answer is yes.

Rajkumar V: Thank you and Sir this pre-inspection charges the amount you mentioned is Rs.10 Crores right for this quarter?

Srivats Ram: Yes.

Rajkumar V: For FY2023 we spend close to Rs.40 Crores is that number correct?

Srivats Ram: Ramesh can you just correct what is the total pre- delivery charges?

P. Ramesh: Rs.27Crores.

Srivats Ram: The net amount is Rs.27 Crores.

Rajkumar V: Plus this Rs.10 Crores right?

Srivats Ram: Yes.

Rajkumar V: Thanks a lot.

Moderator: Thank you. The next question is from the line of Raj Mantri from Concept Investwell. Please go ahead.

Raj Mantri: Good evening Sir. Sir can you let us know the margin profile of each and every segment in which you operate?

Srivats Ram: That varies. We have shared I think the segmental reporting for the quarter. All I can tell you is that the cast aluminium wheel which earlier was struggling while we are not yet at breakeven point, but it is EBITDA positive and directionally in the right direction. It is just the volume that will take us to PBT positive. Broadly speaking I think the under recoveries that have happened are more in the export-related markets because pricing tends to be prospective both in the export market and in the aftermarket, so the aftermarket would be largely commercial and the export markets would be largely agriculture tractor and construction equipment, but those will get corrected shortly in the coming quarters. I am sorry if I am not answering. I do not have the ready information on segment wise and profitability for the Q2. I am sorry I am just trying to share the best I have to my knowledge. Ramesh unless you have additional information.

P. Ramesh: No not at the moment.

Srivats Ram: My apologies for that.

Raj Mantri: Sir my second question would be what is the production volume in CV and PV segment?

Srivats Ram: You are talking about Wheels India or you are talking about the industry?

Raj Mantri: The commercial vehicle wheels and the passenger vehicle wheels.

Srivats Ram: So commercial vehicles currently I think 125000 plus LCV is about 55000, so if I take LCV, HCV and CV together it would be 125 + 55 which is about 180000 wheels a month. If you are taking PV segment I will include the subsidiary, so in Wheels India standalone I would say about 3.5 lakh wheels and there it would be about something like 5.3 lakh wheels, so 5.3 + 3.5 would be the total if you include the subsidiary company as well. This is a lakh wheels a month.

Raj Mantri: Ok

Srivats Ram: Yes I said 3.5 lakh wheels in standalone and 5.3 lakh wheels a month in subsidiary, so if you include both it is 8.5 lakh to 9 lakh wheels.

Raj Mantri: Sir my second question is whole capex could be funded through internal accruals?

Srivats Ram: Yes so far we have managed to fund it through internal accruals and we are hoping that with better margins or lesser of onetime cost in the Q3 and Q4 that we will be able to fund the capex that we plan for the year.

Raj Mantri: Thank you for the reply

Moderator: Thank you. The next question is from the line of Jay Rajen Betai from Dolat Capital. Please go ahead.

Jay Rajen Betai: Good evening. Sir my first question is on basis of alloy wheels how do you expect to take alloy wheel business further as you said export market is doing well so what sort of margin guidance could you give us for the coming year?

Srivats Ram: Yes so as I said currently most of our volume is export ; on domestic while we have one OEM the volume is negligible. We are currently doing about 24000 wheels a month and we expect that probably by same time next year we should be doing closer to 35000 to 40000 wheels a month.

Jay Rajen Betai: Thank you. Sir on a followup question again do you plan to incur further capex to ramp up this volume or it should be coming from the Rs.200 Crores you mentioned previously?

Srivats Ram: Yes I do not see any major capex coming for this volume. If we make investments we will make investments for the coming year so I still do not know whether we are going to make capex in cast aluminium wheels, if we make it will not be for the current year because the lead time cycle for this is 12 months so it is more likely to come into play the following year.

Jay Rajen Betai: Another question could you just give us your penetration or market share in the PV segment for the steel wheel and alloy wheel?

Srivats Ram: Steel wheels my understanding is that we have about a 40% market share, aluminium wheels we are literally not there because we have only one customer so it would be a very minuscule market share percentage. Probably if you ask me the question at the end of the next financial year I may have a more substantial answer for you.

Jay Rajen Betai: Sure Sir. Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital advisors. Please go ahead.

Jeetu Panjabi: Thanks Mr. Ram. Just a clarification I heard you along the way saying that Europe is very soft and you have grown exports at 20% over the last six months I do not know if that is an accurate number but where do you see growth coming from exports over the next 12 months and what are you optimistic about, what are you not optimistic about and how do you see volumes and growth numbers playing out?

Srivats Ram: The areas where we have been affected have been yes largely Europe. Europe is very soft and they have shown degrowth in the Q2 and the half year also, for that matter. We have also seen some amount of weakness in Latin America. Now broadly speaking, if you look at these markets I do not see any dramatic increase in market size be it US, be it Asia, be it Europe and be it Latam. None of these are markets are going to grow so essentially where we look at growing our business is where we are winning new business; so we are winning new business for example on light construction wheels, some medium construction wheels in probably from the Q4 of this year and then we are also looking at larger tractor wheels which are used in Europe and North America so these are the three areas where we see export potential. With that said, I think it would be probably muted while we had very strong growth in export in this year, next year would be quite challenging and we may need new business just to ensure that we show some growth and do not degrow export in the coming year.

Jeetu Panjabi: You think FY2024 you will still maintain a double digit growth rate or that will be tough?

Srivats Ram: We are at 7.7% so we are not at a double digit growth we are at mid-to-high single digit growth. I do not see that changing dramatically. Next year the other areas that we are looking at which are relatively new areas for Wheels India, we are looking at growing our fabrication business in export market and we are looking at growing our hydraulic cylinder business in export , that will come in the next financial year ; so these are two new areas, where we see a potential for growth and have interest and enquiries from customers.

Jeetu Panjabi: Which markets are these in?

Srivats Ram: These are largely North America and Europe.

Jeetu Panjabi: Good wishes. Thank you Mr. Ram. All the best.

Moderator: Thank you. The next question is from the line of Ganesh Shetty. Please go ahead.

Ganesh Shetty: Thank you for the followup. Sir just want to know the amalgamation of Sundaram Hydraulics and how it is going to impact on our topline and bottomline?

Srivats Ram: Sundaram Hydraulics as we also said in the press note has been fully amalgamated into Wheels India. In all respects it is now on the same SAP system that we run the main company. If you look at last year I think we did Rs.108 Crores of topline and in the current financial year we expect them to do about Rs.130 Crores to Rs.140 Crores so they probably will show anywhere between 25% and 35% growth. There is fairly strong demand on their side and earlier they were not as financially strong so I think Wheels India is adding a lot of strength to them in terms of finances, the team will step up and execute but it has been profitable

Ganesh Shetty: Thank you Sir for the explanation. Sir one more area of operational deficiency is energy consumption so as you mentioned going ahead we are going to have renewable energy as our main source of energy so do you think it will make a major impact on our EBITDA margins going ahead?

Srivats Ram: It will make some impact it will not make a major impact. Definitely there are savings that will come. Lot of these projects will get executed probably mid 2024 so those savings will probably come in from that time period . Further , I would also like to mention that we are now looking at capturing digital information related to energy cost and we are hoping that by having effective live information we can take further stock of our manufacturing practices and look at changing manufacturing practices to reduce energy cost, so there is a detailed work which is going on related to energy, water and air. It used to be like a quarterly type of reporting now it is come to monthly.

Ganesh Shetty: Yes Sir one more area of operational efficiency is by introducing new manufacturing technologies like AI and all, so is there any progress the company has made in this regard? That is all from me Sir. Thank you very much and all the best.

Srivats Ram: Nothing really on AI but digitizing is something that we have started making investments. We are doing digitizing on two fronts one is in terms of data capture and the other one is we are trying to see whether we can do visual digitization and thereby automate some inspection processes which are being more manual, so these are the two fronts in which we are looking at. In that visual digitization there are some algorithms which you could argue incorporate machine learning if not AI.

Ganesh Shetty: Thank you very much Sir. That is all from me.

Moderator: Thank you. The next question is from the line of Jay Rajen Betai from Dolat Capital. Please go ahead.

Jay Rajen Betai: Hello Sir thank you for taking my question again and giving this opportunity. Sir I actually was going through the last transcript of your concall where I saw that you were manufacturing fabrications for railways am I right?

Srivats Ram: Yes we were manufacturing. Yes. Please go ahead.

Jay Rajen Betai: So you had mentioned that you were now preparing yourself for manufacturing fabrication for high speed trains such as Vande Bharat so could you just give us an update on that plan?

Srivats Ram: Let me be honest yes we are looking at that. We have not been able to make much progress because we went through a whole phase of optimizing our manpower in that particular division but now that it is optimized I think it is something that we can definitely look at if not now ,by Q4 but definitely it is something that we are looking at. We were not able to proceed because we wanted to first rationalize the manpower. There was a comment I think the last investor call on manpower cost so we immediately went into it and looked at all the areas and this was one area where we had excess manpower and have rationalized so we will look at it going forward.

Jay Rajen Betai: There is an associate JV with Topy Industries and since two years I see there is a drag on your business. Is there a way that or are there any plans to turn around that business as well?

Srivats Ram: Yes we do have plans. I think steel passenger car wheels is not a growth business it is a business which is going to decline so with that in mind of course, we are doing some plant-related rationalization which should be executed in the Q4 but above and beyond that we have also raised a point with the joint venture partner saying that we need to look at some other business other than steel wheel business. We are still examining it and it is at very nascent stage of discussion but at some point we will look at adding products so that there is some growth potential for the joint venture business as well.

Jay Rajen Betai: Sure. My last question would be on the raw material side so how do you see the outlook going ahead considering the situation in Middle East oil side of it?

Srivats Ram: About the steel market you are talking about?

Jay Rajen Betai: Overall raw material.

Srivats Ram: The steel industry as I said there is a marginal increase in steel cost in the Q3 at the same time the global industry benchmarks are not really seeming to suggest any big increase in steel price. We will have to wait and watch. I think the challenge is that the steel industry's largest segment base is infra, almost 30% to 35% of the steel industry product goes into infra and there in India there is a fairly strong growth as you people are aware ; so as a result of that they are saying that global is good, but in India there is a growth in the demand of steel so they are trying to push the prices up. Eventually the company will have to look at what is cost effective for the domestic industry and what is cost effective for the export industry. We will have to look at cost effective source to continue our business with both the domestic and the export business customers we have.

Jay Rajen Betai: Sure Sir. That is it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Harshit Agrawal from Wells Fargo. Please go ahead.

Harshit Agrawal: I just had one question this was with regards to the high interest and financing cost. I know this has been answered in this call before that for the current year we are managing it using the capex and the internal accruals but given the global macros and the high interest rate scenarios that is expected to persist how would we be trying to finance it for the upcoming years let us say for the next year when the interest rates are expected to be high so how do we plan to rationalize our interest and financing cost for the upcoming years?

Srivats Ram: So on two fronts one is I think as Ramesh mentioned we are really looking at what we can do to squeeze our working capital at the same time we have a fair export portfolio where the terms tend to get stretched and stretched because of the logistics-related time, etc., etc. So we believe that in the next year the capex may not be to the same extent as we had this year so at the current moment we feel that there could be some debt reduction by lesser capex at the same time we have not yet worked out our budget for next year in terms of capex and opex so I cannot really comment, but I do believe that it will be less because when I look at the number of the businesses we are in the phase of finishing our capacity expansion so the next year we would have the capacity available so we would not really require massive capex from that perspective; so I think the capex reduction and better utilization of what we already have ; there we will do two things one is it will reduce our interest rate because of lesser borrowings, secondly it will also improve our EBITDA because of better utilizations. I do not know whether I have answered your question. I am just trying my best to explain the facts.

P. Ramesh: I can add a couple of points.

Srivats Ram: Sure.

P. Ramesh: The cash from operation is also expected to move up from where we are today; like with the margin improvement the cash generation is expected to move up and the fact is, if you look at our debt equity, even this quarter it is 1:1.01 so it is not a very highly leveraged company, maybe it looks like a leveraged company because of the low EBITDA which is probably little pronounced this quarter, so with the improvement in margin I think the key ratios would be quite okay and we will continue to squeeze working capital and reduce the limits which we are using and manage the capex in a way that the business will generate the cash flow so that we do not really borrow additional amount; but if you look at our analysis that interest increase is predominantly coming from the repo rate increase and not coming from a higher facility utilization.

Srivats Ram: Utilization has actually gone down. What is the reduction in utilization Ramesh?

P. Ramesh: About Rs.150 Crores in this quarter Sir compared to the last year quarter 2.

Srivats Ram: I hope that answers your question but feel free to add.

Harshit Agrawal: Thank you for the answers.

Moderator: Thank you. The next question is from the line of Rajkumar Vaidyanathan. Please go ahead.

Rajkumar V: Thanks for the followup. Sir you mentioned that there are some employee actions planned in the upcoming quarters so I just want to know these actions are planned as a function of the projected lower demand and lower capacity utilization or is it due to digitization and other operational efficiencies?

Srivats Ram: No, it is largely, largely volume based.

Srivats Ram: It is largely volume based because the other thing is there are areas where the volume goes down and there are areas where the volume goes up and earlier we were looking at the manpower as individual separate business units. Now the company operates with two presidents who have number of units under them so there is a rationalization that is taking place; if there is shortfall we move it from the areas of under utilization to higher utilization so that is actually what we are doing. There is no reduction in manpower per se from digitization.

Rajkumar V: Got it 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 closing comments.

Srivats Ram: So once again thank you. I really do value the interaction with investors because you always ask the most interesting questions, some of which enable us to revisit operational strategies or strategic directions that we have taken and we keep looking at what we are doing in the light of your comments and your queries. I do recognize the fact that the performance has been below par in this quarter and as I mentioned we hope to correct this and get it back to where it was by the Q4. I look forward to all your support. Thank you very much.

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