"Wheels India Limited

Q4 FY '24 Earnings Conference Call"

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MODERATOR: MR. BASUDEB BANERJEE - ICICI SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to Wheels India Limited Q4 FY24 Earnings Conference Call 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 an assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Basudeb Banerjee of ICICI Securities. Thank you and over to you Mr. Banerjee.

Basudeb Banerjee: Thanks Manav. Good afternoon, good morning to participants as per the location. Thanks to Management of Wheels India Limited for giving us the opportunity to host the call. We have with us the senior management represented by Mr. Srivats Ram, Managing Director and Mr. P. Ramesh, Chief Financial Officer of Wheels India Limited. Without wasting any time, I'd like to hand over the call to the management for their initial remarks followed by Q&A. Over to you sir.

Srivats Ram: Thank you, thank you Basu and good afternoon to everyone. Thank you for attending our fourth quarter call. The company has actually had a flattish sales with sales actually coming down marginally to INR1,167.46 crores compared to INR1,172.43 crores in the fourth quarter of last year. On the profit angle, the net profit was INR36.83 crores as opposed to INR22.39 crores. Now when you look at what actually happened for us in fourth quarter, fourth quarter actually saw a slowdown in the agriculture tractor wheel business that we had. January, February, and March were much lower and the industry per se actually had a degrowth compared to the previous year.

The second segment that was affected was the commercial vehicle segment where post January, February and March offtake was very very minimal. So as a result of that, we actually had a degrowth in the domestic business. However, the export business grew, and we did about almost INR319 crores of **exports i**n the fourth quarter.

So the product mix change moving away from domestic and towards export definitely did help improve the profits. Also in one of the export businesses, there was a raw material advantage that we got in the fourth quarter which we were able to hold on to and that also contributed to the improvement in profit. So if you look at the businesses in the fourth quarter which did well on exports, construction wheels, aluminium wheels and hydraulic cylinders were the three segments that did well on the export front.

On the domestic front, air suspension system for buses did well and will continue to do well. In addition to this, the board has also recommended a dividend of INR7.39 per INR10 share and that will be taken up in the AGM later in the year. With that, I have completed my brief. One more comment I would like to make ; Another notable change when you look at quarter on quarter is that the machining of large castings which we had just started in, we just about started in December of last year and In this year, we had fully ramped up and the volume had doubled.

That is a profitable business and that also contributed to the profit, additional profit in the fourth quarter. With that now, I am open to any queries and questions that people may have. So I await people to please dial in and ask their questions. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Amit Hiranandani from SMIFS Ltd. Please go ahead.

Amit Hiranandani: Hello sir, congratulations on the good set of numbers.

Srivats Ram: Good afternoon, Amit. Thank you.

Amit Hiranandani: Sir, can you just help me with the how much is total steel capacity we have and how much is the alloy capacity at present? And if you can give a mix in the revenue also, please.

Srivats Ram: Yes, we make multiple products. There's wheel products and non-wheel products to start with. We're also in construction and agriculture tractor which are not really automotive. So let me just put it this way. I think the aluminium sales, Ramesh, correct me if I'm incorrect here; The aluminium sales is about 8% of our mix. Would that be correct, Ramesh?

P. Ramesh: Yes, sir. Aluminium sales would be 8% , yes.

Srivats Ram: So it's about 8% of our sales but you have to understand that, you know, for the company has commercial vehicle wheels, tractor wheels, construction wheels, the windmill segment, air suspension segment or other segments which are not all of them are necessarily wheels.

Amit Hiranandani: Understood. And so what would be the current revenue potential from the aluminium , you know, current capacity you have at present?

Srivats Ram: Yes, so based on what we have and what we hopefully will start next month with the second aluminium OEM getting on stream, I feel a year from now we should come, maybe, just short of double of what we are doing. Right now we're doing about say something like 23,000 wheels a month and we should probably be closer to 35,000 to 40,000 wheels a month. I mean by fourth quarter.

Amit Hiranandani: Okay. And sir, on the capex side, so can you help me with where we have spent capex in FY24 and what would be the annual capex run rate for the next three years, please?

Srivats Ram: I believe there was some capex towards cast aluminium more on finishing operations. There was capex which is related to machining of large castings that took place. I believe there was some capex related to commercial vehicles and I believe some capex related to tractor wheels. This is FY24. Ramesh, we've spent about I think INR140 crores, something like that?

P Ramesh : INR141 crores sir, Including process up-gradation.

Srivats Ram: So this is also including, upgrading a process, maintenance, everything included. INR141 crores. In the coming year, we believe we will spend slightly in excess of INR200 crores of capex.

Amit Hiranandani: And in which areas we're going to spend?

Srivats Ram: Yes, yes, just coming to that. So, the areas where we will spend capex, just before I tell you that, let me also tell you that very often when we spend the capex, the lead time is like 12 months. So, you know, there's a kind of a one-year lag from spending the capex to actually starting the production in a lot of the cases. So, if I look at the INR200 crores that we are looking at spending this year, I will say that there is capex which is related to the machining of large castings. There's some capex towards cast aluminium wheels, because again, this is 26-27 we're looking at. Some capex on earth-moving and tractor wheels, some capex on hydraulic cylinders. And the balance is just maintenance related capex.

Amit Hiranandani: Okay. And sir, about alloy wheel, how much is the capacity for alloy wheels at present, the car alloy wheels?

Srivats ram So, currently, including what is, getting commissioned probably in this quarter, our capacity will be about 42,000, we have to understand for capacity, the capacity of the furnace, capacity of the paint plant is much more. So, we just basically add low-pressure die-casting machines and machining cells and that makes up the difference. So, on an annual basis, we'll keep adding these cells and I think once we reach about 50,000-60,000, we'll be full up and then we'll have to start a fresh capex cycle if you understand.

Amit Hiranandani: So, sir, this alloy capacity is on GDC or LPDC?

Srivats Ram: LPDC.

Amit Hiranandani: Great, great. Just last question on the outlook for the industrial component business and for the exports outlook also, please.

Srivats Ram: Yes, so I'll start with exports first. So, on the exports front, we expect a flattish year, partly due to the fact that I think the, relatively, the retail-related customers who we service have done an inventory correction in April. So, the first quarter will be relatively less, but we should be able to make it up. The other point I'd like to mention is that while we have won a lot of business, lot of that business is coming at the tail end of the year.

So, it will actually feed into, you know, FY26 much more than FY25; it will be full year addition for FY26, but it may come in only in February. So, a lot of the export business that we are seeing is coming at the tail end of the year. So, that is the reason why we probably would have a flattish kind of forecast on export in the current year, although the fourth quarter will be better. Industrial products, we do see growth.

Machining of large castings, while it may not show as high a growth as we saw last year, because last year was basically ramping up to better capacity utilization levels, and now we're just adding equipment. There will be ,maybe about 20% type of growth, in that particular business. Hydraulic cylinders, we are seeing, we do believe we can show considerable growth in the coming year. And that's why we're also investing in hydraulic cylinders.

Amit Hiranandani: Okay. All right, sir. All the best and many, many thanks for answering the questions. Thank you.

Srivats Ram: Thank you so much, Amit. Thank you.

Moderator: Thank you. We have our next question from the line of Dhaval Shah from Fort Capital. Please go ahead. Hello, Mr. Dhaval, are you there We are able to hear you.

Dhaval Shah: Thanks a lot for taking my question. I wanted to ask, what is the export as a percentage of total revenue in last year, FY24?

Srivats Ram: Last year, it was about 26%.

Dhaval Shah: Okay. And we generally supply to clients like Caterpillar, right?

Srivats Ram: Yes, they are one of our big customers. Yes.

Dhaval Shah: Okay. And in India, we supply to JCB?

Srivats Ram: Yes, we do.

Dhaval Shah: Okay. And construction, including domestic and export is, what percentage of our revenue?

Srivats Ram: It would be, now, if I include in construction, if I also include in addition to wheels, fabrication and hydraulic cylinders, Ramesh, please correct me, it would be about 22% of sales or more than that, Ramesh?

P Ramesh: It's about 24.5%.

Dhaval Shah: You are saying that, yes, the things related to infrastructure built out, which is construction equipment, is 24% of your revenues?

P Ramesh: Correct.

Dhaval Shah: Of which majority should be domestic, right? Or exports also?

Srivats Ram: No, no, export is majority, because we are a very large player in the earthmover wheel segment globally.

Dhaval Shah: Okay. How are margins?

Srivats Ram: Margins are quite healthy towards double-digit margin overall as a segment, but I would say the fabrication segment is, the fabrication part, which is relatively smaller is more of a single-digit margin, and the wheels and cylinders are both double-digit margins.

Dhaval Shah: Okay. A few years ago, I think, when our margins were very depressed at around 5%, you had said that, you know, it will take us some time, but we will reach 9%. This quarter, I saw your EBITDA margin was 8%. So, will this sustain?

Srivats Ram: let me just explain this. So, we actually get some amount of turnover discount from some of our suppliers. Unfortunately, it all comes in the fourth quarter. So, our accounting, we account, we tend to account it in the fourth quarter, but I would say probably 1%, slightly more than 1% will be that.

Dhaval: So, you are saying that 7% is a sustainable margin?

Srivats Ram: Yes, something towards that, yes.

Dhaval Shah: Okay ; so how far we are from 9% in terms of time because we have to regain 2% margin based on our aspiration to touch 9% margin?

Srivats Ram: Yes, we need to do that. We are focusing so we've been if I recall, either the last investor call or the call before that, one of the comments that people had made was the manpower cost was running away. So, the current year we actually focused on controlling the manpower cost. We are now working on energy and fuel cost which I think in the current year will continue to come down.

This year we are also trying to improve the performance of the subsidiary. Now, while Wheels India standalone has been profitable there is a loss-making subsidiary. So, we are also trying to focus on that and try to bring that to breakeven point. These are what we will be focusing on the current year.

Dhaval Shah: So, current year we can work with 7% or 8% margin?

Srivats Ram:: I think I really don't want to project numbers, but the lower of the two numbers is what I would suggest.

Dhaval Shah: Okay and which other segments we are seeing because the commercial vehicle everybody is not very bullish on the first half of FY25 and even Maruti and Hyundai are not striving for much higher growth for the next year in FY25. Some part of FY25 will also go into election. So, I would say that so which - what kind of revenue growth we can just aspire for. I'm not asking for guidance?

Srivats Ram:: I'll just share with you what our customers have shared with us. You're right on commercial vehicles, most people feel it will be flat for the year. On passenger vehicles I think the industry has indicated 5% growth and on agriculture tractor which is the other relevant segment, if the monsoons are good as IMD has predicted ,then the second half should be good, but the first half is still very, very muted.

This is the guidance as far as the domestic market. Air suspension on buses will continue to be strong. We don't see any issues there. As I indicated construction equipment, wheels as well as hydraulic cylinders should have some growth. So, that in a sense, covers where we see growth in the coming year.

Dhaval Shah: Okay. So, you feel that double-digit growth is something which we can aspire for, but it will be back ended, second half?

Srivats Ram:: See if the economy really steps up and then it will reflect in our customer schedule, then there will be growth. I'm just telling you what I'm seeing at the current moment.

Dhaval Shah: Sure. Okay. Thanks a lot.

Moderator: Thank you. We have our next question from the line of Abhijeet Bohra from Awberry Ventures. Please go ahead.

Abhijeet Bohra: Congratulations for the good numbers. I just wanted to ask one thing where do we stand with our railway plan because I've seen on the site that our railways, we were trying to mobilize the labour staff and the Indian government is very active on pushing new Vande Bharat stuff in this system, but obviously, we are right now in the election cycle. So, where do we stand on that part?

Srivats Ram:: We are really not pushing railways. We are trying to as a matter of, I mean, if I can just be very clear, barring any residual orders that are there, we are not looking at new business from Indian railways, but we are looking at developing ourselves as a supplier to people like Alstom who then feed into the metro system, if you understand what I'm saying.

Abhijeet Bohra: So, one more question. So, basically, we are going to be using more of our profit for capex expansion next year, as you mentioned. So, what part of it will be also help us reduce the debt that we have?

Srivats Ram:: See, we've been managing the company for the last, I would say, one and a half years or so ,we've been managing the company based on free cash flows. So, essentially while we have capex plans, they need to be free cash flows that come from the business and based on that we've been making investments. Of course, there are some commitments, some new businesses which we need to make capex before the business comes, which probably on a project basis, we could prioritize outside of this free cash flow logic of capex, but I think even with that, Ramesh, would you like to answer the gentleman's question?

P Ramesh: Yes, sure. So, our free cash flow would cover the capex estimated for FY25. So, in a worst-case scenario the debt will remain at the present level and if you're able to optimize the working capital the way we are taking the internal plan, we may be able to reduce the debt further in FY25 and you would have noted in FY24 we brought down the debt by something like close to INR47 crores. So, we may be able to do it depending on how much we are able to optimize the working capital and how far is the sales growth and other factors.

Abhijeet Bohra: Okay. And one last question. Where do we stand with the alloy wheel? I mean alloy we have been little cheaper on that. So, aluminium is doing very well. So, last question.

Srivats Ram:: Yes. I'd also answer this for the previous person who asked the question. We're doing about 23,000 wheels a month currently and we expect to do closer to 40,000 wheels a month by March of next year.

Abhijeet Bohra: All right. Okay. Thank you so much, sir. All the best and looking forward.

Srivats Ram:: No problem. Thank you so much.

Moderator: Thank you. We have our next question from the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: Hi, thank you for the opportunity. So, how much capex did we do last year and what is the capex plan for the coming 2 years that is FY25 and 26 and will that capex be specific to aluminium wheels or for the other products also like steel wheels and suspensions?

Srivats Ram: Okay. Aditya, thank you for the question. Last year, we spent INR141 crores on capex. And in the coming year, we expect to spend slightly more than INR200 crores on capex. And in the year after that, we would also expect to spend something similar. This broadly is related to the quantum of capex.

Coming to specifics of the breakup, the capex is actually as I had replied to the first person who asked a query. The capex is related to all segments, commercial vehicle segment, construction, agriculture tractor, hydraulic cylinders, machining of casting, and aluminium wheels.

The paint plant and the foundry are adequate for the current volumes. The year after perhaps we may need to make an investment. But at the moment, aluminium is only, I would not say it's a small part, but it's a part of the total package and not the largest part of the total package.

Aditya Sen: All right. And what is the gestation period? How should we understand the ramp up of these capex? Like the one that we did in FY '24, INR140 crores. So, until when will it start fetching revenue?

Srivats Ram:: So, INR140 crores, if you look at the INR140 crores, it will honestly kind of kick in from June onwards in terms of being commissioned. I would not say the entire INR140 crores, but I would say like a significant long gestation period items which were probably ordered in the beginning of the year, last year will come into production in June, which is notably related to machining of large casting and aluminium wheels. And the balance will probably come in the fourth quarter of this year. So, typically I would say 12 months. 12 months is probably a good estimate of gestation.

Aditya Sen: All right. Understood. And that was my question. Thank you.

Moderator: Thank you. We have our next question from the line of Rajakumar Vaidyanathan, a shareholder. Please go ahead.

Rajakumar Vaidyanathan: Congratulations for the good set of numbers, first of all. Sir, I have been listening to the call. So, you mentioned that 7% is a sustainable operating margin that we can look forward for the upcoming quarter?

Srivats Ram:: For the upcoming year, I think this year we are capable of coming close to that is what I said, yes.

Rajakumar Vaidyanathan: Okay. On a full year basis. Sir and in terms of revenue, what is the outlook you have? Do you think the revenue will also be flattish or we can expect some increase in revenue topline ?

Srivats Ram: See, we have budgeted a flattish type of single-digit type of revenue growth. But if the market post-monsoon are stronger, then our revenue growth will be more. On the export front, the reason why we are kind of flattish in terms of our predictions is because we are in number of platforms, which are coming on stream, but they are unfortunately coming only in the fourth quarter.

So, which is why we have not actually predicted any big growth in export. Although there are significant platforms, we are working on they are only coming in the fourth quarter.

Rajakumar Vaidyanathan: Okay. Got it, sir. And, sir, any outlook on the subsidiary because I see that the losses have come down in Q4 and they have come down substantially reduced between your Q3 and Q4, the standalone consolidated numbers. I see the INR7 crores losses come down to almost INR1, INR1.5 crores type. So, is this sustainable or are there any one-offs here?

Srivats Ram: No, we are working on it. We feel that probably by the end of the coming year, we should get it to a breakeven level, maybe even earlier, but at least by the end of the year, we are hoping we can get it to a breakeven stage.

Rajakumar Vaidyanathan: So, you mean breakeven for the whole year is that what you're saying?

Srivats Ram: Yes. That's what our attempt is. We're just starting the year, but that is the plan.

Rajakumar Vaidyanathan: So, just a couple of more questions, if I may ask. I was just looking at what are the levers available for, I know the margin you mentioned 7% on an overall basis. So, in terms of the levers available for improving the EBT, so it would come more from increasing scale and through the debt reduction or if there is any down movement in interest rates. Is that a fair assumption or are there any other levers that I'm missing out?

Srivats Ram: Yes, yes. So, I would probably say that there are some segments for the company which are strong in terms of relatively stronger margins, notably machining of large castings, earthmover wheels, hydraulic cylinders, and even air suspension to some extent. So, any growth in these segments will definitely improve our profitability.

We are also trying to see to the extent to which we can come up with a better pricing mix of products by which we feel our margins should increase.

Rajakumar Vaidyanathan: Okay. And so, lastly, one housekeeping question. So, just on this is for Mr. Ramesh. So, if you see the cash flow statement for the current year, I see there is a non-moving provision in back debt of INR18 crores that is showing up in the full year cash flow, whereas this item was missing in your September cash flow. So, just wanted to know what is this, if you could give some color on this.

Srivats Ram: Ramesh, you want to take it or even I can take it?

P Ramesh: Yes, you can. Okay, go ahead.

Srivats Ram: So, really the difference is related to we had a distributor of wheels in Europe and in the beginning of the year, he had actually told us that he's going to restructure his business and there was a hope that the business will continue. But towards the latter part of the year, it became very clear that he has no such plans. So, we made a provision and we have written off the debt which is due from him as he's also not made payment for a long period.

We followed our debt provision policy that we have in the company. The company has a policy for writing off debtors more than certain number of days. So, we're just following that policy. So, the INR18 crores that you mentioned essentially is covering bad debts, inventories, which are beyond a certain period.

Rajakumar Vaidyanathan: Okay. And this was done in Q3 or in Q4 this INR18 crores?

Srivats Ram: Mr. Ramesh can answer that.

P Ramesh: Partially in Q3 about INR5.7 crores in Q3 the balance in Q4.

Rajakumar Vaidyanathan: So, this will be a one-off item, right?

P Ramesh: Yes.

Rajakumar Vaidyanathan: . So, you're done 8% margin despite this provision thing?

Srivats Ram: Yes. Of course, we also have the year-end turnover discount, which is a one-time gain we get every year, but yes, correct.

Rajakumar Vaidyanathan: Okay because your real margin should be then more towards 9% to 10% than the 8% that is kind of showing up that's what I meant?

Srivats Ram: Probably.

Rajakumar Vaidyanathan: So, you're a bit conservative in terms of giving guidance of 7% margin?

Srivats Ram: Yes. We also need to see when we look at aging, we also have a sense of will there be something else in the coming year? We have to provide for contingencies when we are making projections to directors. It's not as if everything is known about what will happen. So, we do budget conservatively. If we exceed the budget, I'm sure nobody will complain, but we are following conservative principles.

Rajakumar Vaidyanathan: Okay. And lastly, given the US election the impending US election do you think it will impact your export market for the coming financial year?

Srivats Ram: I hope not because US is a significant market for us. Almost INR500 crores worth of sale is from the US market. We don't believe - we believe that even if the incoming President is diligent and puts a duty on Indian products, we still believe that the other country will probably also face the same disadvantage and so from a relative viewpoint we may be in the same place.

Rajakumar Vaidyanathan: And lastly, any asset monetization opportunities is that we can look at towards this debt reduction?

Srivats Ram: I don't believe we have anything. Anyway, Mr. Ramesh, would you, anything that you have in mind?

P Ramesh: I mean I have a couple of comments. One is, if you look at our debt, the long-term debt is about INR62 crores and if you look at the entire debt it is largely the working capital which is based on the drawing power available for towards the receivables and the inventory. So, I think, I mean, first we don't have an asset to monetize, and the debt reduction would happen in due course with the improvement in the free cash flows and with the improvement in EBITDA you will also find that most of the metrics would be in line with the Prudential Financial system. It won't be like a situation where we need to really take efforts for reducing the debt.

Rajakumar Vaidyanathan: Okay and so in terms of guidance so last year we had done about INR122 crores as the interest line item. So, do you expect any drop in the upcoming year, or it will be more like a figure?

P Ramesh: The interest on a standalone basis is about INR109 crores. The interest would remain at the same level because current year the interest has jumped because if you recall in the previous year the repo rate was increased about five times during FY23. So, the full year impact has come in the current year and that's why the interest has gone up to something like INR109, INR110 crores. And it would remain at the same level with growth which we are expecting to happen in FY25; the interest would remain in absolute value at the same level.

Srivats ram: Okay. We also - so we are not assuming any interest rate correction and things like that. Of course, if those happen those are above and beyond this.

Rajakumar Vaidyanathan: Okay. Got it, sir. Thanks a lot, sir. Thanks for answering all my questions. All the very best.

Srivats Ram: No problem. Thank you so much.

Moderator: Thank you. We have our next question from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty: Good afternoon, sir. And congratulations for good set of numbers.

Srivats Ram Thank you, Ganesh.

Ganesh Shetty: Yes. So, sir, as most of my questions are answered, I just have one suggestion. As our interest costs remain very high also the debt restructuring is nearly not possible for us. Can we have some QIP or right issues so that amount we can use for debt repayment, and we can have higher profitability? Can you please throw some light on this, sir?

Srivats Ram: I appreciate your applying thought towards this and your suggestion, but I think at the current moment we believe that we will constantly work diligently on an annual basis and find ways of reducing our debt and improving our profitability. I would rather, if we are going to raise capital, I would rather raise capital towards some major expansion rather than purely debt reduction. At the current moment, there is no such plan, but thank you for your suggestion.

Ganesh Shetty: Thank you very much sir. That's all from. Thank you.

Moderator: Thank you. We have our next question from the line of Kiran a shareholder. Please go ahead.

Kiran: Hello, sir. Good afternoon.

Srivats Ram: Yes. Good afternoon.

Kiran: So, I have one question. With respect to alloy wheels here from the previous calls if I'm right, we were doing around 25,000 wheels per month and in Q4 we were expected to add one more domestic customer. Can you just throw some light on that, sir because even in this Q4 also we are at the same level?

Srivats Ram: So, the new customer starts actually in June. So, we have already produced and ready to make the first shipment, but I think they will take, maybe one quarter to start ramping up to noticeable volumes. So, probably if not Q2 , Q3 we'll start seeing the volume ramp up, but the startup production for the customer is in June.

Kiran: Okay. Thank you. Sir, another question related to wind energy segment. So, can you just throw some light on what could be the opportunity size in the domestic and in export like in market size can you just show where we are right now?

Srivats Ram: See the domestic market is quite flat at the moment. I don't think there's any significant preference for wind which is there in government policy. On the export market we have started supply towards offshore platforms and it's expected that in the West the offshore platforms will be a major area of growth. Outside of this, we work with our partner Baettr who makes castings that we machine. And I think as they look at ramping up their India operations, we will also be able to ramp up our machining to match their casting capacity.

Kiran: So, one last question. I think we had a plan to increase the renewable energy as a consumption. By FY26, I think it was around 75% is what our plan. Could you just share on the progress and how much cost we would be saving based on this project?

Srivats Ram: Okay. I will answer it maybe not exactly the way you want me to answer but let me answer the question. Yes, you are right. We are looking at increasing the percentage of energy from renewable from 26% to 75% that is a stated purpose for the company. We have made some headway, but there are a couple of contracts which are probably taking longer to negotiate for us to put in place.

So, I will say that about let's say roughly about half of what we thought we'll do we've done, but we're constantly working on other opportunities in which we can ensure that we make up to the 75% level. Other thing that we are doing is that we are working on reducing energy consumption in the company. A couple of technologies that we are adopting to reduce fuel consumption, notably within the company. So, it will be a combination of one side, yes, increasing renewable offtake, but also what can we do internally to reduce consumption.

Combination of these two things will come in. You asked about how much money we will save. All the projects are projects which have decent timelines in terms of payback. They're most of the projects that we have are within a couple of years.

Kiran: Thank you and all the best.

Moderator: Thank you. We have our next question from the line of Ankur Agarwal from RC Wealth Solutions. Please go ahead.

Ankur Agarwal: The capex what we are doing of INR140 crores this year we have done, next year INR200 and then next year INR200 crores and this asset turn ratio how much does it come after doing this much capex, what are we expecting in the coming 2 years to 3 years volumes?

Srivats Ram: Yes, there are two, three things. One is that whenever we do the capex that capacity is on ground after 1 year. So, effectively if you do the capex today and because of that capex to generate sale it can happen only after 1 year. So there is a lag of 1 year. So from that angle if you see that in previous year INR140 Crores investments have been done in that investment ,the sales will be generated this year and, in this year, INR200 crore investment which we are saying, that will come from next year onwards as sale effect.

Ankur Agarwal: Sir asset turnover ratio in INR200 crores capex how much volume it gets increased?

Srivats Ram: So in that angle if you see if we increase the capex. In last year it was INR140 Crores and before that year it was like that only. So, capital asset turnover ratio it has not increased much. Whenever we are doing INR200 crores it will have an slight impact for 1 year, but from second year onwards it will more than makeup.

Ankur Agarwal: So in the coming next 2 year, 3 years INR7000 crores, INR7000 crores, INR8000 crores turnover is it possible after 3 years?

Srivats Ram: Asset turnover is also slightly misleading because we are also investing in the machining of castings. So, in machining of casting there is this convergent business, margin source is more, but the material cost is less. So, you understand the asset turnover ratio will not be the way the conventional business is. In the conversion business when you look at the sales in asset turnover material cost is everything, but this new machining of castings business which I think in the last year we did about INR71 crores in those INR71 crores there is no material cost. Everything is convergent. So, if you look at the asset turnover ratio it can be a little misleading.

Ankur Agarwal: So, if the margin improves, I mean, when there will be high-end work, will the margin improve it can come to 8% to 9%?

Srivats Ram: Yes, margin is definitely improving, and I think it will have an impact in the last year as well.

Ankur Agarwal: Because the peer group Strip Steel Wheels Limited has a 11%-12% margin, so we are a little low on the margin level?

Srivats Ram: Our product profile is slightly different sir they are mainly in aluminium wheel and steel wheel automotive. We are in construction equipment, windmill equipment segment ; different segments we are in. We are competing in automotive wheel, but not in other segments.

Ankur Agarwal: So then our margins should be better in which we do not have competition?

Srivats Ram: No, we will definitely try, what you are saying is right. We will try and I am confident that in 2 years, 3 years we will reach the level that we have earlier also communicated.

Ankur Agarwal: In the last 4 years, 5 years there has been no improvement in performance as you should have seen, industrial growth and all so I think in the next 2 years, 3 years there should be a good improvement?

Srivats Ram: Yes, I am confident you will see an improvement, but we will see sir after 1 year we will definitely see. Thank you, sir.

Moderator: Thank you. We have our next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Hi good afternoon, sir, and congratulations for good set of numbers.

Srivats Ram: Thank you.

Shashank Kanodia: So just wanted to check, will it be possible for you to share your operating level margins across your steel wheels and alloy wheels?

Srivats Ram: Yes, see alloy wheels I think because we have a capacity foundry and paint plant capacity of say about 60,000 a month. We are operating currently at 23,000 a month. So, the margin right now is still negative although in the fourth quarter it improved significantly whereas only marginally negative, but I feel that once we go to the 40,000 level, I think the margins on aluminium will increase. Broadly speaking steel wheels are single digit margins, construction equipment wheels, hydraulic cylinders, air suspension and machining of large castings, the windmill related segment, all these are double digit margins currently for wheels India.

Shashank Kanodia: Right. So sir between you and the nearest competitor in the alloy wheel space, so is it just the mix of alloy wheel that is impacting our margin or are there any other processes and efficiencies that you feel that needs to be corrected for us to close the double-digit range?

Srivats Ram: No, the product range is very different. He is making about 2.5 million aluminium wheels; we are making one-tenth the volume. He is not making any windmill parts; he is not making any construction related parts. So the product mix is completely different. It's like comparing Tata Motors with Maruti.

Shashank Kanodia: Sir lastly, so next three, five-year vision, so do you feel that we can be clocking something like 18%, 20% kind of ROCE profile or something like 11%-12% kind of margin range. So any sort of vision wise, let's say next three years, five years down the line, how do we see the company shaping up?

Srivats Ram: No, so I definitely I am looking at a 15% return on capital employed. I think that is something that we will reach. I know we've, because the three quarters of the year were quite difficult, it's only in the fourth quarter that we made some progress. But we are confident that in a couple of years, we will come closer to that 18% so that you guys also believe it.

Shashank Kanodia: So thank you so much. That's all from my side. I wish you all the best.

Srivats Ram: Thank you.

Moderator: We have our next question from the line of Amit Hiranandani from SMIFS Ltd. Please go ahead. Thanks.

Amit Hiranandani: Sir generally you give some segment wise revenue breakup. So can you please help us for FY '24, PV, CV, non-auto, and exports, please?

Srivats Ram: Yes, exports was about 26% of sales. The construction business, as Mr. Ramesh earlier clarified, which is made up of really earth mover wheels, hydraulic cylinders, and some fabrication for construction, all that told is about 24.5% of sales. But that 24.5% also includes exports. The tractor segment is roughly about 20%. CV is about 25%. PV is single digit. The air suspension is single digit. And the windmill sector is also just about maybe 10% of turnover. So that's a rough breakup.

Amit Hiranandani: Okay. All right, sir. Thank you so much.

Moderator: Thank you. We have our next question from the line of Aditya Sen from Robo Capital. Please go ahead. Mr. Aditya, are you there?

Aditya Sen: So thank you for having me again. I'm asking if you can share the market share details of CV tractor and the PV segment.

Srivats Ram: Okay. So in the commercial vehicle segment, I think we have 30. So on the CV segment, I'm probably breaking up MCV, HCV, and LCV. Okay. So look at MCV, HCV, I think about 37% market share. On the LCV segment, we have, I think, 58% market share. Tractor segment, we have about 54% market share. And the PV segment, let me put it this way, I think, because the steel part is declining. But at the same time, with the largest manufacturer in the country, we have the larger market share between the two players.

Aditya Sen: In the steel wheels?

Srivats Ram: Yes. Aluminium wheels were too small. I don't think we don't really count because we're just starting now.

Aditya Sen: Okay. That was my question. Thank you.

Moderator: Thank you. We have our next question from the line of Nishant Vass from 360 ONE Asset. Please go ahead.

Nishant Vass: Yes. Thanks for the opportunity. Congratulations, Srivats for the results. Just a few questions. Just to understand your opportunity on the railways and wind side on the domestic market, can you please help us in terms of what kind of turbines are you supplying in terms of the size? And what can be potentially the content per turbine that you guys can supply currently?

And you mentioned that domestic is still slow. But just for our understanding, apologies, this was covered earlier. But the market opportunity as per the end manufacturers is going quite rapidly, touching potentially 5 gigawatt. So are we more in offshore side? That's why we don't play too much in the industry?

Srivats Ram: No, no. Let me clarify. So we started off actually at 2 megawatt. Now we do absolutely nothing for 2 megawatt. We do more of 3-megawatt, 4-megawatt, 6 megawatt. And we've also just started for 15 megawatt, which is offshore. Even some of the 6, actually some of the 6 also is offshore. So we are in both onshore and offshore. There's a slight -- see there's a slight disconnect between people who announce parks and the production.

So when you hear about people saying they're adding so much capacity in wind, so much capacity, it doesn't necessarily translate into production in the immediate period, because this is a capital goods market, which has a lead time. So that's probably why you're saying that market may not think it's very good, but at the same time, they think, how come you're not excited about it? I only go based on schedules that I get from my customers. And they have a pipeline. So it really is related to what is the pipeline of stock that they have, and whether they feel they need to ramp it up or slow it down.

Nishant Vass: So to understand your statement better, is this statement correct? Say this is a lead lag phenomena, and if the underlying end manufacturers continue to invest, you will also start to see that benefit trickle to you in similar proportion?

Srivats Ram: Yes, I think if you have successive years of rapid growth, then you'll start seeing it reflect in terms of manufacturing.

Nishant Vass: And would you be comfortable sharing any market share data with us on this space and the local market? How much would you be able to generally have as a share of business?

Srivats Ram: No, I think the parts are very different. It's not like, automotive, where it's straightforward, and you can say so many wheels or so many suspension systems, because we do a variety of different fabrications on a windmill. All I can say is that in this segment, we are one of the leading manufacturers who also exports in a sizable quantity overseas. That's all I can say. But we don't have a sense of what is our market share. But for large multinational companies, we are a preferred supplier.

Nishant Vass: Okay. And second was on the railway side. You guys do the frames and the bolsters. So here, what's the medium-term plan in terms of how you do, because there's obviously a big round of ordering cycle that is happening across the large customers. So are we participating in some of these opportunities which might fructify?

Srivats Ram: Yes, we're actually not really aggressively participating on the government tenders. We're not entirely comfortable with the system there. But with some of the multinational companies like Alstom, we are trying to become a qualified supplier, and then you look at that segment.

Nishant Vass: Okay. So would it be fair to put a two-year time frame for you to be seeing meaningful revenue from this thing?

Srivats Ram: Yes, I think so. If you're able to crack it, that's a reasonable time frame.

Nishant Vass: Okay. And my last question is, so as you mentioned about the machining, so what's your broader target in terms of say next two years out, what do you want the machining mix to be for the overall business?

Srivats Ram: So the machining is machining of large castings. So we are adjacent to a large casting manufacturer. So our plans are really aligned with his capacity plan. So as he ramps up his capacity, he has plans to ramp it up significantly, maybe not double, but close to double in the next, say, two to three years. So as that happens, we will also have to add capacity to match that.

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

Srivats Ram: Thank you so much for all your interest and your questions. We always look forward to interactions with investors and shareholders. As you do ask questions that we don't always think of, and it makes us think in retrospect, and sometimes also gives us direction in terms of the way the company should go. So thank you so much for your interest in interaction. We look forward to interacting with you and hope that we can continue to perform well and meet your expectations. Thank you so much.

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