"Wheels India Limited
Q2 FY '25 Post-Result Conference Call"
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MODERATOR: **MS. VISHAKHA MALIWAL – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Wheels India Q2 FY '25 Post-Result Conference Call hosted by ICICI Securities. As a reminder, all participant line will be in 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Vishakha Maliwal. Please go ahead.

Vishakha Maliwal: Thank you Nikita. Good afternoon, everyone. Thanks to the 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, CFO of Wheels India Limited. I'd like to hand over the call to the management for the initial remarks followed by Q&A. Over to you sir.

Srivats Ram: Thank you Vishakha. Good afternoon, everyone. Welcome to our Q2 call. Wheels India has registered a net profit of INR21.92 crores as compared to INR5.24 crores in the corresponding quarter of last year. Of course, last year we had one-off expenses for pre-delivery inspection charges, which was almost close to INR10 crores. So that's why last year it was low. This year we registered revenues of INR1,085 crores for Q2 as compared to INR1,189 crores in Q2 of last year. There are a few reasons which I will also cover later on.

For the first half, if you look at it, the company registered a rise in net profit at INR47.29 crores as compared to INR18.46 crores in the corresponding first half of last year. Again, revenues were INR2,174 crores for the first half of this year compared to INR2,322 crores.

I'll come to revenue next, but first if you look at profitability, very favorable product mix, notably increase in machining of windmill castings, where we ramped up actually in this year. Productivity improvement and cost control across units resulted in the good growth in profit that we had for the second quarter in succession. And these measures that we have in place are likely to continue to maintain some kind of profit trajectory in the current year.

On the revenue side, if you actually look at it, Q2 saw a drop in both CV and tractor requirements. As all of you must be aware, and it's also in the media that both these sectors had a drop. And for Wheels India specifically, there's a significant drop in the lift air suspension system business for trucks as there's a move away from multi-axle and towards trailers.

On the export front, as I've indicated in earlier calls also, things are slowing down globally, both in US and Europe, resulting in not only cuts in schedules on existing business, but also delay in introduction of new products as customers have to exhaust their stocks. So, while this year we are probably going to see a reduction in exports, we expect that the new products, which have so far not come in, which will definitely come next year, will ensure some growth in exports in the coming year.

On the capex front, while obviously existing business, capex, when utilizations are low, have not really happened, we are investing about INR225 crores, notably towards the expansion of machining of windmill castings, agriculture wheels, hydraulic cylinders and little bit in cast aluminium wheels. In terms of growth prospects, in the second half, we expect that CV tractor and to some extent aluminium wheels will pick up in Q4.

With that, I've finished my commentary on Q2 H1 results and now I'm open to any questions or queries that any of you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit from SMIFS Limited. Please go ahead.

Amit Hi, sir. Congratulations for the good operational performance in Q2. Sir, can you please help us in understanding the export market situation at present, including the freight rates and the inventory situation or challenges over there? Also, if you can spend a few minutes and guide us on the outlook for the domestic market segment-wise, that would be really helpful, sir. Thanks.

Srivats Ram: Okay. I can try my best. On the export front, Europe has been slowing down quite a bit over the years. And even recently, I was in an expo in Europe and our distributors are saying that they've gained market share, but the volume has dropped. So it's a question of actually those markets have gone through a little bit of a trough. And we have to wait for those markets to improve. When the overall market improves, given our gain in market share, we should be able to improve. This is one example.

But if you look at the US also, US is also showing signs of slowing down. It varies from segment to segment. I am given to understand, for example, that mining should improve in the coming year. Construction should also see some improvement. Although, I don't know what the US results will have in terms of these various activities. But I'm just giving you the customer feedback.

For us, exports are largely agriculture tractors, construction equipment, and commercial vehicles, and also aluminum wheels. Agriculture tractors globally is going through a little bit of a recession. Not so much in India, but the rest of the world, volumes are down about, you know, 30%. So, it's a cyclical business. And at some point, the cycle turns, and then the volumes grow by an equal number.

If you look at the domestic market, CV in Q1 was actually quite good. Q2 has been quite negative. And while Q3 is not likely to be worse than Q2, we think we'll have to wait until Q4 to actually see an improvement in the CV market. Tractor, on the other hand, has been fairly muted. But we expect that due to the fairly decent monsoons, Q4, which is again because of the season, this whole harvest season which happens from mid-January, we expect that the Q4 will be strong on tractor.

On the passenger vehicle side, I would rather wait till post-Diwali and see how the sales actually have happened before I comment. But customers seem to be still confident of meeting annual numbers that they predicted. I hope this has answered your question.

Amit: Yes, sir. This is very helpful, sir. Secondly, basically exports is about one-fourth of our business, which is expected to decline in this fiscal. And in the domestic, demand doesn't look very healthy for the commercial vehicle, and that's another 25% of the business. So considering all these things in the picture, how much revenue possibly can achieve in FY '25? And any aim for FY '26 please?

Srivats Ram: FY '25, the way I look at it, I think the revenues will be slightly less than FY '24. Pretty much whatever you've seen in the first half is what you can expect in the second half. Maybe Q4 may be slightly better. But pretty much what you've seen in terms of the company's results in the first half are likely to span out for the balanced part of the year with some improvement possibilities in Q4.

Amit: Okay. And, sir, you have mentioned in your comments that new products introduction in the exports market. Can you please explain what exactly is this?

Srivats Ram: So, there are a couple of areas where we're looking at. One is hydraulic cylinders, where we are seeing a lot of potential. Some of the business that we are looking at may take between one to one and a half years to kind of fructify. But at least within one year, we'll get in some kind of committed state with the customer. But it may require expansion, in which case it takes one and a half years.

The other area which we are looking at is actually widening the range of products that we have on agriculture tractors, because when you're going to export markets, people are saying unless you have the entire range, we can't look at you as a replacement supplier. We can't look at you as a supplier who can take over existing people. So we're widening the range of products. That is the second area that we're looking at.

The third area is that there are some products on construction where the development or testing cycles are physical and very long. So as a result of which, while we've developed the product, for it to go through all the testing and come out will probably result in, not in this year, but in '25-26 or even '26-'27 is when the volumes will come. So some of these products that we've developed are quite profitable.

Amit: Understood. Lastly, on the alloy side, so presently, alloys is on the LPDC technology. How much is the current capacity and are we planning to increase the same?

Srivats Ram: See, it's a little bit. Because if you ask today, I'll say probably about 40,000 is current. 40,000, which is let's say 500,000 per year, is the annual capacity. We'll be increasing it by about 10,000 a month by the end of the year. So, it's more de-bottlenecking as opposed to expansion in aluminium.

Amit: And sir, also continuing with this, if you can help us on the current utilization level of this alloys and any orders in hand and which clients we are serving, please?

Srivats Ram: Yes, sure. As you probably know, we don't name clients, but I can give you some hints. When we started supplying, we had one MNC based in Chennai who was very low in volume. We have now started supplying to one of the top three manufacturers, not based in Chennai, but one of the top three car manufacturers. And that customer has said that he will increase our volumes on a month-on-month basis and hopefully take us close to 20,000 nos for that single customer itself. This is in addition to our export business as well.

Amit: So, how much alloys goes into domestic and how much is in exports?

Srivats Ram: Domestic is still very less. But to give you an idea, let's say instead of saying what it is today, let's say if I go forward to probably say April or something of next year, it will be about 25,000 in domestic and maybe about 15,000 in export.

Amit: Okay. And lastly, on the margin side, we are very happy to see the margin turnaround in the industrial business segment. So, can you please elaborate the same and the sustainability, please?

Srivats Ram: Sure. So, one thing is, yes, of course, it looks fairly spectacular to go from a marginal loss to a profit. But last year, we had a one-off charge of almost about INR10 crores, which is pre-delivery charge. So, purely based on the fact that this year we don't have it, you should have had a INR10 crores swing. But added to that, this machining of windmill castings is quite profitable. And we have actually ramped that up quite substantially compared to the same period last year.

Now, a little bit about this business. We are kind of tied with a large casting manufacturer, a multinational company. And they are currently operating at 25,000 tons a year. Now, they have a plan to expand this to 45,000 tons in the next couple of years. And as they expand that, we also expect that our volume and our business there will also increase.

Amit: So, this 7.5%, can we assume it's sustainable?

Srivats Ram: Yes.

Amit: Okay. And lastly, there was some margin fall observed in the auto segment on a quarter-on-quarter basis, despite having the flattest…

Srivats Ram: Yes, CV has fallen. The volume of CV has fallen.

Amit: Understood, understood. Okay, okay, sir. All the best. Thank you so much.

Srivats Ram: Okay, thank you.

Moderator: Thank you. The next question is from the line of Rajakumar Vaidyanathan, an individual investor. Please go ahead.

Rajakumar V.: Yes, good afternoon, sir. Thanks for the opportunity. Sir, just a couple of questions and then a couple of housekeeping questions as well. Yes, the first one is on the previous call, you mentioned that you're working on some export programs that will translate into revenue in Q4. So I was just going through your press release. So, you are saying that there will be a drop in exports. So I just wonder whether that is also getting right shifted and we will not see that revenue in Q4.

Srivats Ram: Yes, no, no, that's absolutely right because what's happened is because their overall schedules have reduced, their time to deplete inventory and commitments they made to existing suppliers has extended. So, as a result to that, our program starting has gotten pushed by actually one or two quarters.

Rajakumar V.: Okay. So, we will not see that revenue in this financial year that you get right shifted?

Srivats Ram: Right now, it looks like April, May, June is when it will happen.

Rajakumar V.: Okay. Yes, thanks for the clarification. So, if I see your this quarter number and the previous quarter number, it looks like your margins have kind of stabilized, whereas the revenue is kind of dropping because of the slowdown in demand. Is that a correct assessment?

Srivats Ram: No, that's a fair assessment.

Rajakumar V.: So, we can expect that the margins to be kind of maintained in the subsequent quarters, whereas the demand could be soft, or it could recover as things progress.

Srivats Ram: I believe so. Of course, one thing that I need to say is if there is any sudden increase in steel price, it could hamper the immediate quarter. Export price corrections are prospective and not retrospective.

Rajakumar V.: Yes. Thanks for clarifying that, sir. Sir, I am also going through your press release. So, you are saying that, you know, I am just reading the last portion of the release where you are saying the measures, you know, will continue into the second half and we are hopeful of maintaining the profit growth in this trajectory in the current year. So, can you please…

Srivats Ram: Profit percentage is probably more accurate. Probably. As you said that EBITDA margin maintaining that is probably more -- Because growth depends on which reference period you are taking.

Rajakumar V.: That's the reason I wanted to highlight that. So, you are saying the EBITDA margins will be maintained.

Srivats Ram: Yes, Q4 it will be very difficult to show any significant growth compared to last year Q4 as it was kind of a bumper period.

Rajakumar V.: Sir, usually you show a good Q3 and Q4 generally appears to be good for you because you get some discount and all that you mentioned in the previous call. So, is it safe to assume that those things will come even in this financial year?

Srivats Ram: No, I am a bit cautious on that because last year Q4 we actually had a price reduction. Whereas this year Q4, if there is a price increase, that price increase may take away that volume whatever you call that discount, purchasing discount.

Rajakumar V.: So, there will not be any lumpiness. So, basically the current margins will be kind of maintained.

Srivats Ram: Yes, I am a bit cautious on this because, we don't know what will happen in Q4. But the indications now seem to be suggesting that. So, that's why I am factoring it in.

Rajakumar V.: Sorry to overthink, I don't want to push you for the near term. I just wanted to check if the margins are going to be maintained. The reason the question. I pushed you too much on the near-term numbers.

Srivats Ram: I am sorry. Can you repeat that? It broke off in between. So, I couldn't follow you exactly.

Rajakumar V.: No, no, I was just saying that if I pushed you too much on giving near term perspective for that, I just wanted to… The next question is, I see that your interest is basically compared to the previous similar quarter, 16%-17% drop. So, this is again a function of the slowdown in demand due to the cost of 16%-17%, or is it a combination of both?

Srivats Ram: No, I think some, here probably some credit should go to the team managing the inventory who have taken it as a target and have found ways of reducing it. In any case , there is no drop in interest cost in Q2FY25.

Rajakumar V.: And, sir, just two housekeeping questions. The first one is, in the cash flow, I see that the non-cash expense is 55.2% shown in the cash. It's an income, so I just want to…

Moderator: Sorry for interrupting you, sir, but your voice is not clear. Could you please use handset?

Rajakumar V.: Sorry about that. So, this question is on the cash flow. If there is an item of INR5.2 crores additional cash flow, so it's an expense, but in non-cash…

Srivats Ram: I'm not entirely sure I heard you properly. Ramesh, would you like to take this question? Mr. Ramesh? You need to unmute.

P. Ramesh: Yes, yes, sir. Can you repeat the question, please? Your voice was breaking.

Rajakumar V.: Mr. Ramesh, in cash flow, you see there is an item called non-cash…

Moderator: Sorry for interrupting you, sir. Rajakumar, sir, your voice is not clear. It's breaking. The line for Rajakumar seems to be disconnected. So, we will move to the next question. The next question is from the line of Vikas Bansali, an Individual Investor.

Vikas Bansali: I'm Vikas Bansali from Ahmedabad. Actually, I invested -- Yes, thank you. Sir, I invested 3.5 years ago Sir our company is doing very well. The growth is very well. But the investor didn't get any return from the last 3-4 years. So, what's yours?

Srivats Ram: Sir, I'm looking to improve the profit. The stock market price is not in my control, unfortunately. But I would imagine that if we continue to show this improvement, there should be some improvement in the stock market as well.

Vikas Bansali: But, sir, as an investor, really, I have… Like, in all the other stocks, we have had very good returns. The market is doing well. Our company's growth is good. Even after that, an investor is not getting good returns. So, is there a problem or some pain? Like, the company is doing very well. Still, why is it like this? So, that is a question for an investor. So, sir, what will you say about that? Like, in the future, the company will continue to grow. But there is no return prospect. My question is that sir.

Srivats Ram: You're talking more about the stock price, that's what you're asking.

Vikas Bansali: Yes after a good growth, a good return it keeps you in a good company and it's a very good company. And that's why I've been holding it for a long time. But, sir, I haven't been able to get any returns as an investor. The stock market has grown well. Our company has grown well. Even after that?

Srivats Ram: No, I understand your question. I understand. I also agree with you that beyond a point financial performance improves, then the market should also price it. That should happen. Pricing should happen. I think we'll just wait and see what happens.

Vikas Bansali: Other peer groups and stocks have given very good returns and has performed very well., but in my company, sir, I have made very good investments. I have made very long investments, but as an investor, it's a bit of a pain that I haven't been able to get a return. So, what can I hope for now?

Srivats Ram: See, our performance has improved now. So, the only thing I can say is that, if you are a little patient, then something will definitely happen. But I can't make any commitments on what will happen to the price. We don't do anything else because of this investor call.

Vikas Bansali: Right. Thank you, sir. Thank you very much.

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

Rajakumar V.: Yes sir. Thanks for the follow-up. Sir, I was just asking this question on cash flow statement. There is an item of INR5.2 crores shown in negative as non-cash expense. So, if you could give some color on that?

Srivats Ram: Mr. Ramesh, can you take this?

P. Ramesh: Yes, sir. These are the movements in the provision because every quarter when we do the book closure, we either increase or decrease the provision based on the assessment of what needs to be provided for. So, the movement in the provision is what is – which is a non-cash item, basically. It is what is reflected in this case.

Rajakumar V.: So, this provision is against what items, sir?

P. Ramesh: This could be against inventory. We have inventories and receivables.

Srivats Ram: We have certain norms in our company. Receivables above a certain number of aging or inventory above a certain aging, we tend to provide for.

Rajakumar V.: Okay, got it, sir. Sir, the second housekeeping question is on the, if I see the profit numbers standalone vis-a-vis the consolidated basically I just see that the subsidiary number has moved from negative INR1.9 crores to positive almost breakeven?

Srivats Ram: Yes.

Rajakumar V.: So, the subsidiary has got turned around?

Srivats Ram: Yes. And my apologies for not mentioning this in the press note, but you're very right. Your observation is right. The subsidiary from the first quarter of this year started turning around and now we are confident that for the full year, we'll maintain profitability and hopefully going forward as well.

Rajakumar V.: That's very useful. That's excellent.

P Ramesh: I can give you the number on this. Last year, H1, the subsidiary had a minus INR11.73 crores and the current year, it is plus INR2.92 crores.

Rajakumar V.: Okay, yes, that's an excellent turnaround, sir. Congratulations for that.

Srivats Ram: Thank you.

Rajakumar V.: That's it for now.

Moderator: Thank you. The next question is from the line of Amit Hiranandani from SMIFS Limited. Please go ahead.

Amit Hiranandani: Sir, can you just help us with the current gross debt level?

P. Ramesh: Yes. As on March 24, we had a debt of about INR708 crores which comprises of a long-term debt of INR62 crores, a working capital facility of about INR401 crores and a public deposit of INR244 crores. This has moved down by INR 10 crores on September 24. The long-term loan has gone up to INR 109 crores, whereas the working capital loan has come down to INR 337 crores and public deposit is 251 crores.

Amit Hiranandani: Okay, so broadly INR700 crores is approximately gross debt level, and what is the cash and investment presently?

P. Ramesh: Sorry?

Amit Hiranandani: Cash and investments?

P. Ramesh: Yes, you are talking about the -- you are talking about the balance sheet in terms of the cash?

Amit Hiranandani: Yes, I'm just calculating the net debt level presently.

P. Ramesh: See, investments as on September 24 is about INR21.37 crores, and the cash and cash equivalents is about INR10.8 crores.

Amit Hiranandani: And sir, looking at the expansion plans of capex of INR225 crores and the working capital requirements, so can we assume that debt would remain at the same level for the next 12 months at least?

Srivats Ram: Yes, Ramesh, it may -- well, not by March 24, but it may reduce going forward because the profitability of the companies also improves. So as a result of that, it's likely to come down unless we can find new opportunities for investment.

Amit Hiranandani: And sir, for the capex, in Q4 call, you have indicated INR200 crores capex, but now it has increased to INR225 crores. Can you please let us know the breakup of where we are going to spend? And also, if you can also suggest the FY '26 capex as well?

Srivats Ram: I don't know about the FY '26 .. It's difficult for me to tell you. But roughly speaking, I'm leaving aside all this maintenance capex and all that, but there's about INR40-odd crores, I think, in this machining of large windmill castings. And maybe about INR30-odd crores on balancing equipment for cast aluminium. On agriculture tractor, again, maybe something like INR40 crores, INR50 crores. And hydraulic cylinders, maybe about INR15 crores. Ramesh, have I left out? And this is roughly, these are the buckets, right?

P. Ramesh: The preparation, the material preparation capex could be...

Srivats Ram: . This year we are looking at capex also from a viewpoint of improving our margins. So one of the projects that we're looking at is whether we can reduce our material preparation cost. So earlier we were -- it's basically make or buy. So some make or buy decisions are being taken where earlier we were buying, where we may make it if we feel that there's a financial gain.

Amit Hiranandani: So sir, commenting on your last line of material preparation cost, are we taking any steps to take our EBITDA margin to any internal targets of 9% or something? Any mid-term goals?

Srivats Ram: You guys are giving it, right?

Amit Hiranandani: So internally, do you have any mid-term targets?

Srivats Ram: Definitely. In the last 2, 3 quarters , you've seen kind of stabilizing of the EBITDA margins and stuff like that. but next year , I don't even know how the domestic economy is going to be and even global economy, I know to some extent. But as we get closer, we'll have a better idea. But assuming it is not doom and gloom and has some positivity in it, yes, the margin should improve.

Amit Hiranandani: All right. Thank you, sir, and all the very best.

Moderator: Thank you. The next question is from the line of Rajakumar Vaidyanathan, an Individual Investor. Please go ahead.

Rajakumar V.: Yes, sir, thanks for the follow-up. Sir, I'm just looking at your segmental reporting. So I think that the automotive component segment, the profit has come down compared to the June quarter and similarly, the industrial components has given a significant increase in bottom line. So is there anything to read into this?

Srivats Ram: No. I'd actually answered one of your colleagues that asked a very similar question. Now, automotive coming down is largely due to the fact that CV has come down. CV had a very good first quarter, but CV in the second quarter came down quite a bit. So that explains the automotive profit part of it. On the industrial, there are two reasons.

One is last year in the second quarter; we had a one-off charge of about INR9.84 crores towards pre-delivery inspection. And the second is we've ramped up the machining of large castings, which is profitable. So a combination of these has created that kind of negative to decent profitability.

Rajakumar V.: Okay, sir. And lastly, is there any guidance on the interest line item? Will it be flat lined? Because you said that there will be some direction…

Srivats Ram: You're in Mumbai, Mr. Rajkumar?

Rajakumar V.: No, I'm in Bangalore.

Srivats Ram: Okay. So I guess the Mumbai guys will have a better feel for that as they're closer to the government.

P. Ramesh: One point we can add, we were enjoying a interest subvention of 2 percent on the packing credit. The impact is roughly about INR1.5 crores per quarter. And it was withdrawn from first of July.

Srivats Ram: Given that this interest subvention now is only permitted for MSMEs. Earlier, all companies used to benefit. So for us, that going away, the additional cost of that is about INR6 crores. That's one of the impacts that we've had this year. But that said, one of our long-term goals is to look at improving our credit rating to the point that it actually has a bearing on the interest cost that is charged to us. But it may not happen immediately like this year, but it may take 2 years. But we are working towards that.

Rajakumar V.: Okay. Excellent, sir.

Srivats Ram: Thank you.

Moderator: As there is no further questions, I would now like to hand the conference over to management for closing comment.

Srivats Ram: So thank you very much for all your queries. We continue to make improvements, although the market has its challenges. And we really gain a lot from our interactions with you. So look forward to our next interaction with you. And before I sign off, I should wish all of you a happy Diwali. Thank you.

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