"Wheels India Limited Q4 FY '2025 Earnings Conference Call"

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MANAGEMENT: **MR. SRIVATS RAM – MANAGING DIRECTOR, WHEELS INDIA LIMITED**
MR. P. RAMESH – CHIEF FINANCIAL OFFICER, WHEELS INDIA LIMITED

MODERATOR: **MS. VIVEK KUMAR – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Wheels India Q4 FY '25 Earnings Call hosted by ICICI Securities Limited.

As a reminder, all participants' 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 Vivek Kumar. Thank you, and over to you, sir.

Vivek Kumar: Thank you, Saisha. Good evening, everyone. I would like to thank 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 would like to hand over the call to the management for the initial remarks followed by Q&A. Over to you, sir.

Srivats Ram: Good afternoon, everyone. And thank you, Vivek. Welcome to the Wheels India Q4 press conference.

The Company has posted revenues of Rs. 1,195 crores for Q4, which is 2.4% higher than the sales of Rs. 1,167 crores in Q4 of March '24. And over the same period, the profit registered is Rs. 36 crores against Rs. 36.8 crores in the corresponding quarter of FY '24. So, marginal increase in sales, profit pretty much at the same level.

At the same time, if you look at it on FY '25 full year basis, focus on cost control, favorable product mix, and lower commodity prices led to a fairly strong profit growth. We were able to cross Rs. 100 crores of net profit last year. We did Rs. 105.9 crores as opposed to Rs. 67.9 crores in the previous year. This is a 56% increase in net profit.

Whereas for the full year if you look at it, the revenues were less at Rs. 4,425 crores against Rs. 4,619 crores. This, of course, this revenue degrowth has been offset in the fourth quarter and we believe that this trend will continue going forward in the coming year as well, where we do see some amount of growth.

If you look at Q4 per se, we saw marginal growth in top-line in the domestic market driven by a stronger agriculture tractor market, we make wheels for tractors, and also a strong demand for air suspension systems for buses that we service. On the export side, the growth was led by sale of windmill components which saw strong growth in the fourth quarter. This is as far as demand in Q4 is concerned.

And during the year FY '25, we made CAPEX of Rs. 250 crores, out of which the largest single product investment was for a tractor wheel plant for larger wheels. And we expect that in the coming year as well, the CAPEX will be along similar lines, but the largest single investment in the coming year will probably be for components for the windmill segment.

The Company had a degrowth in exports last year, marginal about 8% degrowth from our peak exports in FY '24. And this is largely due to a drop in the second quarter of last year in exports. Subsequently, things are along expected lines. And in the coming year, we expect exports to also show some amount of growth going ahead. We are building a strong base which should probably lead to some amount of export growth over the next three years. That base is being built now on which we can actually develop products and also show increase in export sales in the coming years.

Lastly, I would like to mention that the Board of Directors of the Company met in Chennai today to recommend a final dividend of Rs. 7.03 per share. This is over and above the dividend of Rs. 4.50 per share which was interim dividend which was announced earlier during the year.

That is it from my side. I am now open to questions from all of you. Look forward to your questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rajakumar Vaidyanathan, an individual investor. Please go ahead.

Rajakumar Vaidyanathan: Good afternoon, sir. Congratulations on a good set of numbers. Sir, just to start with, I just want to know what is the outlook for the exports. Because in the last call you said some of the export programs are getting right shifted, so just wanted to know if you could throw some color.

Srivats Ram: Yes, I think barring all the talk of tariffs, demand remains reasonably strong. Although I do expect that probably towards the latter part of the year the full impact of tariffs will reduce demand at some point. But the Company per se is expecting to show some growth in exports even in the coming year despite this. So, the outlook, as I mentioned, is quite positive. It is in a number of areas, exports are export of construction equipment wheels, hydraulic cylinders, aluminum wheels, and windmill components, and tractor wheels.

Rajakumar Vaidyanathan: Okay, sir. And sir, any outlook on the domestic auto including the tractor segment, what is the outlook you have?

Srivats Ram: I think the tractor, each of these industry bodies have made their claims in terms of what the growth will be. If you look at the tractor segment, I expect fairly reasonable growth, at least about 5%, 6% growth in the tractor segment. About 5% in the tractor segment, commercial vehicle segment may be about 3%, 4%, and may be 3%, 4% in the passenger vehicle segment, this is what we expect.

Rajakumar Vaidyanathan: Okay, sir. Sir, just couple of housekeeping questions if you permit me to ask.

Srivats Ram: Sure.

Rajakumar Vaidyanathan: The first one is, if you see the cash flow, the full year cash flow I see items on account of obsolescence about Rs. 6.13 crores, and non-moving and provision for bad debts about Rs. 3.25 crores, so that is what is shown in the current, those are the two-line items I want to highlight in the full year. And if I see your September cash flow, there is an item in negative for Rs. 5.2 crores towards, I think for the provision for bad debt line item.

Srivats Ram: Yes. Ramesh would you like to comment on it?

P Ramesh: Yes, sure.

Rajakumar Vaidyanathan: Which means you would have provided about roughly Rs. 15 crores in the second half, is my understanding correct sir?

P Ramesh: Good evening sir, this is Ramesh. The negative Rs. 5.25 crores, I think we also clarified in the last call, it is a movement in the provision sir. When provisions are made and provisions are reversed, that is the movement which is coming in the previous period. In the current period, these provisions are relating to the obsolescence of fixed assets and which has hit the P&L. And since it is a non-cash charge, it has been added back sir. Similarly on the provisions, we have a provision, I mean, we have an accounting rule for bad debt provision. Based on that rules, a provision is being made. And since it is a non-cash charge, it is again added back sir, for the purpose of cash flow.

Rajakumar Vaidyanathan: Okay. Got it sir. Thank you so much.

P Ramesh:: These are basically provisions which are being reversed when you are calculating cash flow because it is not a real cash out.

Rajakumar Vaidyanathan: Yes, they are non-cash items, right sir. Sir, the next question is, I see your inventory has come down from Rs. 880 to Rs. 970 crores, is it due to efficiency measures or is it due to poor demand for the coming quarters?

Srivats Ram: No, we have cut our inventory, there is no two ways about it. It's not related to demand, I am sorry. The answer is it's not related to demand. Demand remains reasonable at the moment.

Rajakumar Vaidyanathan: Okay. That's nice to know. Okay. And the last one on the line, I want to know the reason for declaring Rs. 7.03 as a dividend, why the decimal 0.03, if I can ask?

P Ramesh: Can I answer that question, with your permission?

Srivats Ram: Yes, sure.

P Ramesh: Basically, we went through an internal, I mean, dividend policy, and probably we could have come up with a number like Rs. 7. And we took 25% of the profits for distribution, and I mean, that's the reason. There is not any specific reason for that.

Srivats Ram: No, numerology at play.

Rajakumar Vaidyanathan: Okay. That's all I wanted to ask. Thanks a lot, sir.

Srivats Ram: Thank you so much.

Moderator: Thank you so much. The next question is from the line of Zakir Nasir, an individual investor. Please go ahead.

Zakir Nasir: Sir, good afternoon, sir.

Srivats Ram: Good afternoon.

Zakir Nasir: And congratulations on a very nice bottom line which you have shown, which you said was a result of cost control, product mix, and commodity pricing. Sir, do you think these kind of margins will continue going on to the next year? And I realize that the top-line will depend on commodity prices and product pricing, but would it be safe to assume that we will have a 10% growth over the absolute number from here on, sir, and the margins will be maintained at current levels?

Srivats Ram: Yes, to answer you, I think the margins will be maintained. Demand from what we see, we see positive growth, but it will not be double-digit margin. It's very difficult for us to show a double-digit margin when all our customers are talking much lower percentages of growth. If you look at the PV sector, SIAM's reference is 1% to 2% growth. If you look at commercial vehicles, people are talking about 3% to 4%. If you look at tractor, they are talking 5% to 6%. So given that the underlying industry segments are not growing that much, it would be difficult for us to expect a double-digit growth. At the same time, I will say, healthy single-digit growth should definitely be possible.

Zakir Nasir: I mean, let me put it another way, sir. Would it be safe to assume that we can touch the Rs. 5,000 crores mark this year, sir? I mean, that would be 6%, 7%.

Srivats Ram: With commodity prices helping, maybe.

Zakir Nasir: And the margins?

Srivats Ram: Yes, margins I think we will maintain. I think the overall profitability will be maintained. But honestly, it does not look like commodity prices will increase too much this year, given that everyone is talking of doom and gloom.

Zakir Nasir: Sir, coming on to the next question sir, Wheels India has in the past, I think since I have been tracking, four to six quarters, has introduced windmill components. Do you think that the face of the Company can change from, maybe, sir, as some people view a metal converter to an engineering Company, sir?

Srivats Ram: Yes. See, essentially we have been looked at as an auto-component, metal converter, as you put it. But actually if you look at the Company sales, if you look at automotive wheels per se, it is 55% of our sales. And if I include the air suspension part of it, it is slightly over 60% of our sales. Then you have construction equipment wheels which is different, you have hydraulic cylinders, you have windmill components, you have some fabrication. All these which are not essentially your auto-component type of category. So the Company has been very different from a pure auto-component player actually for quite some time. But it is enlarging because the opportunities here seem to be larger. So we basically grow as our customers give us more opportunities. And it looks like globally, if you look at it, we are getting more opportunities on the non-auto side.

Zakir Nasir: And if I may, sir, what would be the debt on books as of now, I mean, at the end of March '26 with this Rs. 250 crores expansion and your whatever payback you do during the year?

Srivats Ram: Ramesh, can you comment?

P Ramesh: Yes, sir. See, if you look at our debt, the debt on the book is about Rs. 704 crores, okay? And if you look at our debt on 31 March, '24, it was Rs. 708 crores. So our plan is to maintain the debt around the Rs. 700 crores, and we will be using a bill discounting of around Rs. 400 crores to Rs. 450 crores. So debt will remain at the present level while we continue to invest on the business at the rate of around Rs. 250 crores a year.

Srivats Ram: One thing, I am sorry, just to interrupt, one thing that I need to highlight here is that for example the CAPEX that we do is very often not for the year in question, but for the year after that, if you understand what I am saying. So, that is actually one thing that you have to bear, especially when you look at these large industrial componentry, the lead times are about 12 months for capital equipment. So, I just wanted to highlight this for your understanding.

Zakir Nasir: Thank you sir. Thanks so much. And best wishes for the year, sir.

Srivats Ram: Thank you.

P Ramesh: Thank you.

Moderator: Thank you very much. The next question is from the line of Manas from JUS Enterprises. Please go ahead.

Manas: So I just wanted to understand if you can just give a quantitative number on the top-line growth and margin for the next full year?

Srivats Ram: Yes, as I said, we are governed by what our customers will end up doing, as demand for our product is really very much a derived demand. Broadly speaking, commercial vehicle is talking 3% to 4%, PV is talking 1% to 2%, and tractor industry is talking about 5% to 6%. So, I will say a single-digit growth probably on the higher end of those numbers.

Manas: Okay. Sir second question, I just wanted to understand the export situation with regard to the tariff and everything. So I just want to understand like I think one of the competitors have mentioned that wheels do not come under the tariff, is that right or we are still under the tariff?

Srivats Ram: No, we have. See, Wheels India has got so many HS codes, there are some HS codes which are under 232, Clause 232 is a tariff based on 25% of input material. There are some tariffs which are on complete product grouping. So there are numerous tariffs which apply to Wheels India. Let me put it this way, lot of the products are actually FOB, so the customer takes on the tariff.

Manas: Okay. So, do we have a risk of margin coming down or they are bearing the cost? So, what is your outlook ahead in this?

Srivats Ram: Yes, per se, may be marginally, but as I mentioned, we expect to be able to maintain our profitability in the coming year as well.

Manas: So, 7% EBITDA margin is sustainable on a yearly basis?

Srivats Ram: Yes, we are confident we can do that.

Manas: Okay. And I just wanted to understand the hydraulic cylinder business, how is it doing, I mean, you mentioned there are strong prospects on it and so how do you think about this business and for the next year?

Srivats Ram: Yes, I think we will probably need to wait till the second half of the year. So, I will just tell you what the prospects are. One is, we are looking at doing some contract manufacturing for cylinder works of a large OEM, still the discussions are not finalized, we are more in the sample submission stage. Second prospect is actually tying up with a Korean cylinder manufacturer which we started negotiations, but I think it will take another three, four months for it to happen. Thirdly, we are working with one of our large customers who is looking at making us more competitive and also improving the quality system, so that maybe a year down the road we will look at exporting more from us.

Manas: Okay. So was there any pre-buying notice in this 90-day period like you had some export like there or it's not, it did not happen?

Srivats Ram: Nothing, we really did not see, what you are talking about whether people rush to order as much, we are not seeing that actually. We did not see that, it was pretty much, see they give us three months' notice, four months, it's all as per what they have given earlier.

Manas: Okay. Okay, got it, thank you.

Srivats Ram: Thank you.

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

Rajakumar Vaidyanathan: Sir, thanks for the follow-up. Sir, the question is on the margin for Q4, generally I think in the previous year Q4 call you mentioned there are some steel discounts and something, because of which there was a bump up in margin. So, did we also get similar such thing in this Q4?

Srivats Ram: Yes, we did, but, as Mr. Ramesh explained earlier, there were also some provisions which we made.

Rajakumar Vaidyanathan: Okay. So in that case this margin of 8% that you are shifting so that is kind of will be a steady state because even with that you are still done well. Compared to the December quarter the margin has moved I think about 30 basis points to 40 basis points it has moved.

Srivats Ram: Yes. Of course, I need to also highlight in this that in the event of any escalation in steel price, it will put pressure on the margins as there is normally some amount of lag effect that takes place when prices go up.

Rajakumar Vaidyanathan: Okay, that is the timing difference that you are talking about?

Srivats Ram: Yes, correct.. Last year we were fortunate that there was no real increase in price, it was only reduction or low movement.

Rajakumar Vaidyanathan: Okay, so do you anticipate any increase sir, based on your current discussion with the vendor?

Srivats Ram: Yes, we believe there will be some marginal increase in the first quarter based on the fact that the government has put safeguard duties on steel. So, there would be some increase in the first quarter which is coming up, but we do not believe it will be substantial.

Rajakumar Vaidyanathan: Okay. And sir, any other margin levers that you will be working for this financial year, given that you have already improved your margins for this financial year this Q4, so what is the target you have?

Srivats Ram: So, a couple of areas which will play a key role is our ability to ramp up cast aluminum wheel production which unfortunately will happen probably more from December onwards because startup production of programs that we have won business are only from that period. So, from that period we should definitely see a ramp up of the cast aluminum wheel product.

Secondly, we believe that also the in the second quarter onwards we feel that the windmill business is normally down in the first quarter, second quarter will be higher, so that should also help in higher margins thereafter. First quarter is the low quarter in the seasonal business of windmills.

Rajakumar Vaidyanathan: So, what do you think essentially, so your margins will improve, but it will improve in the second half of the year compared to current year?

Srivats Ram: Yes, probably let's say from second quarter onwards, it should improve, the first quarter will be, first quarter is always a little bit strained, March, April, May, June is not the same as January, February, March. So the first quarter will be slightly lower, after that it should improve from first quarter levels in the second quarter onwards.

Rajakumar Vaidyanathan: Okay. And how much it will improve sir like you have, can put 100 bps?

Srivats Ram: It's difficult, I am not even 100% sure of what will be customer offtake in this month. So it's very difficult for me to determine exactly what will be the increase in profit. All I know is that the product mix change in the second quarter should help the profitability. Because we have a slightly unfavorable mix in the first quarter.

Rajakumar Vaidyanathan: Yes, the reason is that you have got a very huge top-line, so even a small improvement in margin will show a big change in your bottom line.

Srivats Ram: Yes, I appreciate the idea behind it, yes.

Rajakumar Vaidyanathan: Okay. And sir, any color on your subsidiary, because last time you said the subsidiaries turned around and we can see --

Srivats Ram: Yes. See, the subsidiary made a loss for quite a few consecutive years, and the subsidiary has become profitable. Ramesh, I forget the net profit numbers, do you have the net profit number?

P Ramesh: Yes, sir. On the consolidation, the subsidiary's loss was Rs. 20 crores in FY '24, has become Rs. 6.65 crores in FY '25.

Srivats Ram: Positive PBT.

P Ramesh: Positive PBT, yes sir. So, that is reflected in the consolidated financials.

Rajakumar Vaidyanathan: Okay. And any reason we are not consolidating that subsidiary sir, because you will get the benefit of your carry forward losses?

Srivats Ram: No, we are consolidating. It is there in the consolidated.

Rajakumar Vaidyanathan: No, I am talking about merging that entity because given that the entity has substantial losses.

Srivats Ram: No, they have a joint venture partner, so that is why we are not merging.

Rajakumar Vaidyanathan: Okay, I am sorry. Yes, got it. Sir last question, I understand many of the Padi based Group companies are kind of moving out of location, so just let me know is Wheels India considering moving out of this location? And any chance of monetizing those lands?

Srivats Ram: No, we are not thinking of that at this moment. Actually my office is in Padi. So, at least I have not been told that we are moving out because I still go to the same place every time.

Rajakumar Vaidyanathan: Okay. Thank you so much, sir. All the best.

Moderator: Thank you so much. The next question is from the line of Jay Unadkat from Navneet Publication Limited. Please go ahead.

Jay Unadkat: Good afternoon, and thank you for the opportunity. Sir, you highlighted on this incremental opportunity on cylinders that we are focusing on just now and you said that you are working with some Korean Company to be able to advance into this business. Would like to learn more about this in terms of what kind of cylinders are these, the same ones that are required for storage or are these those specific to the structure tanks which go into industrial and medical application?

Srivats Ram: Yes. So let me answer your question. No, the Korean cylinder manufacturers are actually making cylinders for construction and industrial equipment, more heavy duty type of cylinders. They are the leading manufacturer of cylinders in Korea. And really they are looking at using us as a source for new businesses that they win, so that they do not need to ramp up in Korea. And they can use our capacity to produce in India for the new business that they win. So this is the negotiation which is going on. The question of royalty, how much royalty, what is the period, so the legal part of it is going through. As and when it gets updated, we will also keep you informed.

Jay Unadkat: Sir, if I may and if it's okay to share the name of the potential Korean partner, their current revenue, and the kind of profitability we would make on outsourcing? Because cylinders as I understand is a slightly more difficult, complicated business, depending on the industry that they cater to. So, this will be a purely outsourcing only relationship, or will this be a technology sharing where they will assist you to manufacture to their quality requirements?

Srivats Ram: I am sorry I am not able to share the name because the agreement is not yet signed. So I can't share the name. But basically it is a technology type of agreement where we also get technology. It is not just an outsourcing agreement.

Jay Unadkat: So with the technology, sir, if they are not procuring from you beyond their requirement, can you start manufacturing using that technology and know-how for your requirements to sell in India or elsewhere in the world? Or will that be restricted to manufacture only for the Korean partner in specific?

Srivats Ram: Yes, I think these are the details that will get fleshed out in the agreement. As the agreement is not yet signed, I am not at liberty to speculate on what will be there.

Jay Unadkat: Okay, sir. So is it a fair assumption that these should materialize into something meaningful in the next financial year or could this be a much longer gestation kind of a situation?

Srivats Ram: I think it is reasonable to assume that it will start, okay, again by next financial year depends on when we come to an agreement with the Korean party. But I am hopeful that sometime in this financial year we will be able to come to some understanding, and following that there should be some start of production. The impact may come more in the next financial year as opposed to this one.

Jay Unadkat: Fair, sir. , if I may extend this further, what size of an opportunity would this mean for the Company in terms of manufacturing for them as partners or for your own interest? And is this coming because of the China-plus-one realignment of supply chain or some capability or confidence that they have in the engineering and conversion skills of Wheels India? How does one really look at this?

Srivats Ram: Yes. See, they have already started buying cylinders from us. So they have bought cylinders from us and they have experienced our quality. And based on the fact that they have had a good experience, they are looking at some kind of agreement. From their side they want a supply agreement, from our side we want a technology agreement.

Jay Unadkat: Do we have an ideal capacity to be able to cater to them because, as I have been following the Company for a few years now, and I see our utilizations are towards the higher of 80% mark on a continuous basis and all incremental CAPEX like you also suggested of Rs. 200 crores, Rs. 250 crores, we keep doing that in part to be able to meet our own growth needs.

Srivats Ram: Yes, we tend to not have too much of spare capacity, but rest assured it will not result in any CAPEX in the current financial year over and above that Rs. 250 crores, because again they will not start at full volume, they will slowly ramp up. So if it does materialize, hopefully it will come into the CAPEX for the next financial year.

Jay Unadkat: Okay. So, but we do not have an arrangement where they will want to separately set up a unit with us which will also involve some kind of CAPEX commitments coming from them or anything like that?

Srivats Ram: No, nothing like that.

Jay Unadkat: Okay. So whatever capacity expansion have to be undertaken to cater to their needs will be borne by Wheels India.

Srivats Ram: Yes. It will be borne by Wheels India. And, again, as I said, this agreement is more on a discussion which is going on at the moment. It is not yet fructified into anything material.

Jay Unadkat: Okay. Sir, last one from me, the Rs. 200 crores, Rs. 250 crores of CAPEX which you indicated with the lead of the next 12 months and hopefully coming into play in FY '27. Is it fair to assume a similar asset turn? And if I may ask what area of business is that getting dedicated to?

Srivats Ram: Yes. So that actually is a significant part of that, so basically I said that the total investment is about Rs. 100 crores which is really in windmill components. So, out of the Rs. 100 crores there is at least Rs. 66 crores which is in a long lead time asset acquisition and that Rs. 66 crores will have more of an asset turn of 1x. But it is a very profitable business because it is a conversion business, it is not a material-based business. You understand what I am saying?

Jay Unadkat: Yes, I got it. So basically there will be some value added on the conversion, and it is more towards engineering than just in manufacturing. Not a problem, sir. Thank you very much. Very helpful, thank you.

Srivats Ram: Thank you.

Moderator: Thank you very much. As there are no further questions in the participants, I now hand the conference over to the management for closing comments.

Srivats Ram: Thank you so much for your queries, and I hope I have been able to clarify all the points which have been raised. As I mentioned, the Company, despite the fairly murky economic environment, especially in the international markets, but also the subdued economy that we have in our country at the moment, the Company is hopeful of positive impetus in terms of having a sales growth in the coming year, and we are also confident of maintaining our profitability. Thank you so much for all your support, and look forward to interacting with you in the near future. Thank you.

P Ramesh: Thank you.

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