WHEELS INDIA LIMITED

"Wheels India Limited

Q2 & H1 FY27 Earnings Conference Call"

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WHEELS INDIA LIMITED

ICICI Securities

CHORUS CALL

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

MODERATOR: **MR. RONAK MEHTA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Wheels India Limited Q2 and H1 FY27 Earnings 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 assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ronak Mehta from ICICI Securities. Thank you, and over to you.

Ronak Mehta: Thank you. Good afternoon, everyone. On behalf of ICICI Securities, we would like to welcome you all to Wheels India's Q2 FY27 Earnings Conference Call. Today, we have with us from the management team, Mr. Srivats Ram, Chairman and Managing Director; and Mr. P. Ramesh, Chief Financial Officer. As always, we'll start the call with a brief opening remarks from the management team, and then we'll proceed with the Q&A session. Thank you, and over to you, sir.

Srivats Ram: Good afternoon, everyone. I'm Srivats Ram. I'm the Chairman and Managing Director of Wheels India. This is a Q2 earnings call, and I'm happy to say that Wheels India in the second quarter showed a 36% revenue increase from INR1,179 crores to INR1,598 crores and the net profit increased from INR27.8 crores to INR53.4 crores on a stand-alone basis.

In that, really, if you look at it, the quarter saw major growth coming from earthmover wheels, which are largely exported; air suspension business, which is really domestic and of course, the domestic auto industry, which did very well in the second quarter.

Broadly speaking, looking forward, while demand for most segments remains strong, there's some concern about inflation and also the second half from the third quarter onwards, you will start seeing some growth slowing down because of the higher base effect of GST 2.0, which happened actually in the H2 of last year.

But we are still seeing strong demand. And we also need to tell you that during this quarter, we also raised funds of INR430 crores, INR180 crores by way of preferential issue and INR250 crores by way of QIP to reduce the debt. And we also did raise the money and reduce the debt by the end of September 2026. Demand seems strong and immediate prospects seem quite bright.

With that, I would probably take you through our presentation. Ramesh, we can just go through the Q2 numbers. Do you want to move to the Q2 numbers and then reiteration of the strategy?

P Ramesh: Sure, sir. Yes

Srivats Ram: So if you look at the quarter / half yearly performance , 26% growth in revenues and 66% growth in profit. While we did debt reduction, we did it in the second last day of the quarter. So as a result of which none of that cost advantage has actually come through, but very strong demand across segments, and we ended up with an EBITDA of 8% and a PBT of 4%.

Next slide. On a consol basis, again, if you look at it, the revenue growth was even higher. On a quarterly basis, it was a 36% growth. PAT growth was 90%. EBITDA was 8.36% with a PBT of 4.6%. And on the half year basis, again, 26%. And yes, these numbers cover the consol for the H1.

Next slide. Segmented reporting, auto is very strong. Really in auto, let me say that we include car, truck, tractor, earthmover wheels, air suspension system is auto. So there is some very strong growth of almost 40% year-on-year, as I also need to tell you, the largest part of the growth came from our earthmover wheels and suspension with also the regular wheel segment also contributing.

Industrial segment had more muted growth. Here, we have some sub-segments like fabrication for construction, which was very slow because construction equipment manufacturing in the country was relatively slower. Also, the wind mill sector is slightly slower. It's more seasonality. It will pick up immediately from the third quarter on.

So these are the two things. And the other part I need to mention is that this sector is- the industrial component sector for us is relatively more skill-based. So because we are expecting higher volumes in the third quarter, we need to hire people in advance. And that's another reason why the EBIT is also relatively lower despite some growth because we have to recruit people for ramp-up.

Next slide. So this gives you a sense also of the EBIT on a half yearly basis. Capex-wise, we are looking at INR400 crores to INR450 crores in terms of capex. Capex is both in the traditional steel wheel business of truck and tractor and also in terms of cast aluminium wheels where we are doing a fairly steep ramp-up and largely the windmill sector, which is also seeing some investment.

Go to the strategy slide briefly. So metrics -- just go to the metrics -- I'm sorry, go to the previous slide, please. So as you can see, our key ratios are coming down and debt-to-EBITDA is coming to reasonable levels. Debt equity ratio also has dropped with the capital infusion.

Next slide. Annualized ROCE and return on networth are reasonably decent. Next. So just to take you through the strategy for growth for the company. We are global leaders in both wheels for construction equipment and agriculture tractors. We continue to focus on growing these segments, both in India and overseas. Second segment we are strong with is the fabrication and machining of large castings for wind mills.

Fabrication segment, we continue to make investments. We are a large supplier to the business sector globally, the non-Chinese wind mill sector. And machining business is also continuing to grow.

The hydraulics business, we believe, has a lot of promise. It's a fairly low base that we have right now. So the opportunity to ramp up is significant, and we believe this can grow faster than the traditional business.

Cast aluminium wheels, as I mentioned earlier, will continue to see investment from us as we see increased conversion happening towards aluminium wheels. Air suspension business has seen significant growth, and we continue to invest to ensure that we meet our customer requirements.

Lastly, the company looks at working capital optimization and managing through free cash flows. And predominantly, we would look at funding capex thro accruals and trying to keep the debt under control. There's also a lot of effort on cost optimization. We have internal meetings every two weeks to drive that. So with all this, we believe that we can continue our growth trajectory and continue to maintain the ROE and ROCE numbers that you see in front of you.

That's the presentation. I think we are now open to any questions that you may have.

Moderator: We'll take our first question from Rajesh Kothari from AlfA Accurate Advisors.

Rajesh Kothari: Congrats for improvement in your profitability. Good to see that. When you look - from the next 2 years' perspective, just wanted to have the brief guideline from your side, how do you look at the, one, both the business revenue growth? And very importantly, how do you see the margins trajectory from current year to improve to that target double-digit margins? What are the various steps which are required? And where are we in that cycle?

Srivats Ram: Thanks, Rajesh. As you are aware, you are right, we are looking at double-digit EBITDA margins. We are around 8% at the moment. And really, the way that we look at it is that we have certain businesses which are now operating at subscale where the capacity utilization is relatively low. And for us, if I can name the businesses, cast aluminium wheels, hydraulic cylinders, also, if I look at it, some of the tractor businesses, we have also relatively underutilized capacity. Air suspension also is something where we are looking at adding.

So essentially, when you take subscale businesses and scale them up, you'll see, , EBITDA positive, PBT positive. So the switch around becomes much faster. And our strategy is, as I mentioned earlier, is also basically to grow these five different business areas and everything else depends on the market.

So when you talk about growth and growth of the market going forward, there is the inherent market growth, which is honestly not within our control. All we can do is to look at servicing the customers when they have the demand growth. I don't have a visibility on how the Indian auto market is going to grow, honestly, even beyond the third quarter. Third quarter visibility. Beyond that, I'm not sure how it's going to grow, but where -- how much ever it goes, we will grow along with it.

The question is really how do we grow faster than the market. And that's why we have this strategy. In this strategy, we have detailed plans of how we can ramp it up. And we believe that we just focus on this strategy for the next at least 3 years, you will see substantial improvement in both the margin profile, as you mentioned, as well as in terms of the top line. I hope I've answered the questions.

Moderator: Rajesh, are you through with your question?

Rajesh Kothari: No, I was -- so thanks for that answer of one part of question. But one part is still unanswered in terms of when you look at the growth, one is, of course, the market-linked growth, but the higher content per vehicle, the export growth opportunities, particularly on the industrial side of the business, the wind turbine side of the business and also the alloy wheels, if I look at the most of the competitors, they are also reporting exceptionally strong numbers. So keeping that in mind, what kind of growth do you think would be reasonable to assume over the next 1 to 2 years?

Srivats Ram: So let me go category-wise. Yes, the construction, the industrial side, wheel demand, we will continue to grow. It will probably grow over a 2-year period, but we are growing even now we are growing quite fast, and we'll continue to grow that. The windmill business also, we are winning new orders.

But again, it's an export-oriented business. So over the next 1 to 2 years, it will grow. Aluminium wheel business, you are right, it is growing fast. And to give you an idea that whatever we did in the second quarter, we will definitely look at doubling that probably by the fourth quarter.

So we are seeing also a fairly steep ramp-up. But for us, it's happening more in the fourth quarter as opposed to immediately. I mean, immediately, there's some buildup, but major volumes will come in at that period of time. And we see this also going forward.

So as a matter of fact, that business, while we already have capex, which is approved, we've even gone ahead for the next phase of capex. So we are extremely bullish there. Other business which has grown substantially and grown ahead of capacity is air suspension business, where we are seeing volume growth at 50% over the previous year, and we see this continuing.

So we will continuously look at increasing capacity both at our end and supplier end.. So really, I would say that these are the areas where if you ask me strategically on industry, maybe to some extent on the windmill side, but really demand growth where we're seeing increasing volume coming this year itself, leave alone next year is cast aluminium wheels and air suspension.

Rajesh Kothari: Thank you sir

Moderator: Next question is from Ronak Mehta from ICICI Securities.

Ronak Mehta: So I have two questions. One is on the price pass-through side. So I believe last time you mentioned about your negotiation with the customers for inflationary cost pass-through. So where are we in that journey? And by when can we expect those inflationary costs to reflect in the numbers? That is first question.

Srivats Ram: Okay. So in raw material , costs happen almost immediately, worst case, a quarter away from the actual escalation. So there is a pass-through, there is an agreement to the customer, that pass-through on RM happens automatically. This year, of course, with the West Asia crisis, fuel costs have also increased substantially and claims have been made with customers. Some customers have settled, some are in the process of settling. So that will probably -- that exercise is already well underway. So we expect to get closure on that probably by the third quarter. So we don't see any major impact there. So it's not really impacted our results in terms of profitability in Q2 and will not in Q3 either.

Ronak Mehta: So is it fair to assume that from third quarter, the margin -- so the overall margins can improve because of those pass-throughs, which are not there in the current margin?

Srivats Ram: Yes and no because it also depends on which segment grows in relative profitability across segments. But yes, broadly speaking, what you say is right.

Ronak Mehta: Perfect. Okay. And also on the breakeven side. So I believe you mentioned last time that in the alloy wheel segment, with the ramp-up in the volume, there could be a breakeven - on the EBITDA as well as on the PAT level, which is not the case as of now. So by when can we expect that breakeven to happen at what scale, maybe time line?

Srivats Ram: Yes. So to give you an idea, we have two things. Earlier, I had also mentioned that around 40,000 a month level is a breakeven level. We are already at that level. Even this month, we are kind of at that level. But the only other issue is we're also sitting on some older stock of material, which during the West Asia crisis, they couldn't ship. So that's just landed at our locations.

So we believe that probably post November onwards, we should be coming -- from December onwards, we should be PBT positive, even on EBITDA. EBITDA positive, we are already there. We're really talking about PBT positive in that business, which should happen from December onwards.

Ronak Mehta: Thank you sir

Moderator: Next question is from Pranjal Soni, an individual investor.

Pranjal Soni: Am i audible? So my question is related to the alloy wheel business. So I just wanted to understand what capex is required to add 1 lakh wheels of alloy capacity? And also, what asset turnover can we expect from this business at optimal utilization?

Srivats Ram: So basically, if you look at it now, we have a capacity currently at 80,000 a month. We are adding capacity up to 130,000 a month by end of March. Ramesh, what is the capex for 80,000 to 130,000, which is the previous -- the July Board meeting number? Do you have that number?

P Ramesh: Sir, it's about INR200 crores, sir.

Srivats Ram: Yes. So roughly INR200 crores. So INR200 crores is what we feel is required for about 1 lakh. So basically 80,000 to 130,000. The 80,000 to 130,000 is 2 lakh or you are talking about including the 170,000, Ramesh?

P Ramesh: Including 170,000, sir.

Srivats Ram: Yes. So basically, for adding, just to answer your question, for adding about 90,000 wheels a month, we need about INR200 crores, assuming that it's not a greenfield site. I'm just talking about adding an existing site, that's probably the equation.

And in terms of asset turnover, you had asked the question, the asset turnover is take INR5,000 a wheel. So 90,000 x INR5,000 x 12.

Pranjal Soni: Okay. So my next question. Okay. Understood. So my next question is related to the technical agreement with Topy. So is it a royalty-based arrangement linked to sales or it's a onetime technology transfer fee?

Srivats Ram: I understand it's a royalty-based agreement based on what they're doing. Ramesh, you can correct me if I'm wrong. It's a royalty-based agreement based on improvements they are suggesting. So we have monthly review meetings and all that. So all that is moving forward.

Pranjal Soni: Okay. And my last question is, can you throw some light on the industrial business because actually, industrial business is currently your lowest margin segment, which is around 3%. I just wanted to understand, so if we are doing out of INR450 crores, INR100 crores of capex for FY27, 50% of the capex we are doing for the industrial business, which I believe, if I take INR200 crores for the alloy wheels, rest is for the industrial business. So I just wanted to understand the rationale. What growth and margin trajectory do you see in the industrial business if we compare it with the alloy business?

Srivats Ram: Yes, Pranjal, first of all, that assumption is incorrect. Ramesh, if we look at industrial sector as defined, which is the windmill, hydraulics and fabrication business, what is the capex that we have planned out of the INR400 crores for that?

P Ramesh: It would be about...

Srivats Ram: INR100 crores, something like that?

P Ramesh: Yes, sir, close to INR100 crores.

Srivats Ram: So, first of all, Pranjal, just to correct you out of the INR400 crores, INR450 crores, we have about INR100 crores, which is industrial business. And on industrial business and why it's not profitable, that question was asked. So industrial business, if I look at it, I break it up into three segments. So the first segment is actually the windmill business, which is profitable even today. It's a double-digit EBITDA margin. We don't have any issues there.

The second business that we have is the hydraulic cylinder business, which is right now a low single-digit business, but that scaling up will happen from the fourth quarter. We're just doing some layout changes. So from January onwards, we'll be in a position, A), to increase our output and B) we also believe that we will start supplies to some of the international partners that we've signed on. So that business will definitely grow and become more profitable.

The third business, which is related to the industrial segment is the fabrication for construction industry. Construction industry in India has been on a low end and also typically construction doesn't happen during the monsoon season. Now monsoon season is over. So the customers are coming back with new models, and we are seeing an increase in that business. So that should become profitable in the third and fourth quarter. So with that, you'll start to see industrial segment also showing improvement in profits.

Pranjal Soni: So what margins do you expect from this industrial business going forward after three, four quarters?

Srivats Ram: Yes, I would expect it to be at double-digit margins.

Pranjal Soni: Okay. Understood. And where is the rest of the capex being taken? Like if we see from INR450 crores, INR100 crores is for the industrial business, INR200 crores is for the alloy wheels. So remaining INR150 crores...

Srivats Ram: Balance is the conventional business of wheels for steel wheels for cars, trucks, tractors, construction equipment and a little bit for air suspension. That's where the capex is. So it's all existing business ramp up. And you ask me which segment, it is for car, it is for truck, it is for tractors, it is for construction equipment, and it is for air suspension for all of them. crores. So about INR100 crores to INR150 crores is going into the traditional conventional business.

Pranjal Soni: Okay. And just one more question. Could you share your current market share in India in alloy wheels and in steel wheels? Like how you see it moving over the next 2 to 3 years?

Srivats Ram: Steel wheels, Ramesh or Muguntha, can you talk about steel wheel market share?

P Ramesh: Sir, our SoB is close to 50% of the steel wheel, if you look, CV and tractor put together.

Pranjal Soni: I think she means passenger cars. So passenger car...

P Ramesh: Passenger car, it would be about 35%, sir, on the steel wheels.

Srivats Ram: So the 35% takes into account the fact that 40% of the market is aluminium. So including that 40%, 35% market share on steel wheels, steel wheel, passenger car. If you look at aluminium wheels, we are a late entrant. So we are a negligible player at the moment, but we do believe that we can get to about 10%, 10% to 15% market share from the current levels, which are probably in the low single digits. And we believe that we can get to this level by the same time next year based on business that we have done.

Pranjan Soni: Thank you sir

Moderator: Next question is from Sahil Jain from Ashwi India Holdings.

Sahil Jain: Just wanted to ask, sir, considering that half -- like I think if I'm thinking correct, majority of business is a conversion sort of a business that we had, except for the products that we are selling. So is there some sort of EBITDA per ton metric that you are tracking? If you could provide us with that, sir? Or is my understanding not correct with this?

Srivats Ram: No, our business is very varied because it includes different products, different sectors. We take the products that we make, the variety is huge. So tracking it on a per metric ton basis doesn't make sense. That basically answers it. We don't track that.

What is the first half of your question? I'm sorry, could you repeat?

Sahil Jain: No, I thought that majority of the business might be conversion business, right, sir, like creating aluminium for passenger vehicles.

Srivats Ram: No, no. We buy it. We buy steel, we buy aluminium and we convert it. The only business of ours, which is a conversion business in that sense is where we do machining of windmill hubs. That's something like a INR10 crores a month type of business at the moment.

Sahil Jain: Understood, sir. And is my thinking correct, sir? Like you mentioned you sell aluminium wheel for INR5,000 on average, like you mentioned earlier.

Srivats Ram: Correct.

Sahil Jain: So considering even if you do 100,000 wheels a month, which is close to like 1.2 million wheels a year, which is at INR600 crores, if I'm thinking correct, then I guess, sir, how much -- so are we -- so with this company being EBITDA breakeven right now, maybe PBT breakeven. So what is the optimum amount of EBITDA can this one alloy wheel business can give us aluminium wheel business?

Srivats Ram: I think 10% to 12% is a reasonable number to look at post reach that scale, it should be at that level is what I would imagine.

Sahil Jain: Understood, sir. So it's like 130,000 a month, but I'm just considering 100,000. So with that and this being like a 10% of, I mean, revenue share. And I guess by that time, it might be lesser. So how much margin accretive can this business become for us? Like could you at least give us like 1% on a consolidated level, like above 1%?

Srivats Ram: I imagine that it becomes a INR600 crores business. It also depends on how the rest of the business grows. So this business will become double-digit EBITDA, as you say, at that point of time, which is probably in our mind, sometime in the first quarter of next year, we'll be at this 100,000 level, and we should definitely be looking at numbers closer to that.

What it is as a percentage of the rest of the business is relative. But let me also tell you that the largest growth opportunity that we see from now to Q1 of next year is possibly this area. So it will be a big share of the growth that we see.

Sahil Jain: Understood, sir. So the margin-accretive business that I'm thinking right now is the alloy wheels and is the machining business, is the hydraulic business, the air suspension business. So all of these...

Srivats Ram: And the construction, construction wheel business, which is a global business, is very profitable.

Sahil Jain: Okay. Construction wheel business. And does that also require aluminium, sir? Or is it like some other sort of a metal?

Srivats Ram: No, it's steel. It's steel.

Sahil Jain: Okay. So the capacities that we have, sir, could they -- are they like fungible in dimensions like they can create -- that same machine can create for a passenger vehicle and for a construction vehicle?

Srivats Ram: No, the passenger vehicle to some extent, can extend to a light commercial vehicle, small commercial vehicle, maybe a small tractor to that extent, but nothing beyond that. The other wheels are much more heavier duty and cannot be made on the same vehicle.

Moderator: I request you to rejoin the queue, please, as we have participants waiting for their turn. Next question is from the line of Rajkumar Vaidyanathan from V. Rajakumar.

Rajkumar Vaidyanathan: Congrats on the good set of numbers. Sir, I have three questions. So the first question is on the Bosch JV, just want to know what is the stake? Because the press release says that TSF Group will hold 50% stake. So I just want to know what would be the stake of Wheels India? And also, if you could give some more colour in terms of what is the investment proposed and some more details, that would be helpful.

Srivats Ram: Yes. So we signed a memorandum of understanding to have a joint venture. Joint venture is just going through competition committee clearances in Europe, after which it can be announced. But broadly speaking, we're looking at about INR100 crores investment. Wheels India's stake will be 20%. So 20% Wheels India, 30% Brakes India and 50% Bosch India. So that's kind of the JV setup. We are largely looking at making air management systems in commercial vehicles for European and North American markets. And Wheels India's product in this joint venture is electronic air suspension.

Rajkumar Vaidyanathan: And is any of those products currently being produced? Because the reason is, will you be contributing any of the existing business into the JV?

Srivats Ram: No. It will only be fresh business. We made it clear that prior knowledge and prior products will not be included. So this is -- we're looking at just fresh products.

Rajkumar Vaidyanathan: Okay. Got it, sir. Sir, the second question is on the tractor wheel segment. Given the El Nino situation, both domestic and globally, I just want to know what is the demand outlook? And what is the outlook for Wheels India with respect to this segment?

Srivats Ram: So let me say that I asked the same question of our largest tractor customer earlier this year. And he said, boss, if I'm able to sell the tractors, I'll continue to make the tractors. So it's taken us a bit by surprise that the tractor market saw such a good growth in the first half. That said, the monsoons have been poor in areas such as Maharashtra, Rajasthan, Karnataka, Andhra Pradesh. And at least three of them are substantial tractor markets.

So we start -- we do believe that the Q4 when the season will return, there will be some impact of that. But that said, the northern part of the country has seen decent So there, the demand may continue to be high. But some kind of moderation may be there, but still on a year-on-year basis, we don't expect it to decline. We just expect it to slow down.

Rajkumar Vaidyanathan: And globally also?

Srivats Ram: Globally, it's very different because globally, it's a commodity that follows commodity cycles and the cycle right now globally is down. So it's all dependent on how the commodities move globally. We are not seeing any upswing there. We're just getting into that market. And as we add products when the upswing happens, we should definitely benefit.

But nothing positive at the moment globally other than the fact that we're winning business. Domestically, I do feel that it will taper up a little bit. The growth will get subdued, but we have to wait and see. The Jan, Feb, March will give us an idea of where the market is headed.

Rajkumar Vaidyanathan: Sir, the last question is on the cash flow. So I see that the money that you have raised, it has predominantly gone into funding your working capital. So just want to know any reason we are having a negative cash flow for this first half. So is it an aberration? Or do you expect the pressure on working capital to remain for some more time?

Srivats Ram: So just to answer your question, it is slightly an oddity because September saw a sudden increase in sales, substantial increase in sales. So because of the substantial increase in sales, suddenly, we had to order a lot of materials and things like that. So the working capital requirement shot up because of the asymmetric growth towards the latter part of the quarter. This is one point. The other thing is there's also not insignificant INR90 crores worth of capex, which took place during the quarter.

Rajkumar Vaidyanathan: So do you expect this cash to fund the prepayment of debt or it will remain predominantly in working capital?

Srivats Ram: No. See, working capital is also debt, you're borrowing money. So when you reduce your borrowing, borrowing is borrowing, cash is cash. - the interest burden should come down going forward.

Rajkumar Vaidyanathan: No, no. My question is, sorry to labor on this. So my question is, once the cash flow becomes positive, will you use that money to repay the working capital debt? Or it will remain to fund your increased whatever the expansion further the working capital will be required. So that money will be used for that?

Srivats Ram: Ramesh, do you want to give it a shot?

P Ramesh: Yes, sir. Yes, sir. Sir, right now, we have applied this money for the repayment of debt, sir. Okay So we have -- what we have done is that we have predominantly repaid bill discounting limits, and we have also partially paid the working capital demand loan, like it was something like INR282 crores of bill discounting, about INR142 crores of the working capital demand loan has been repaid out of the issue process.

So now we are seeing a negative cash flow. Your question is saying why we are seeing a negative working capital is basically because as our CMD said, the growth in sales resulted in the higher receivables and higher inventory and because of which the working capital has become negative. And going forward, I mean, since the debt is already reduced using the issue proceeds, going forward, given the present level of the activity, we don't expect further investment in the working capital. So the cash accruals, which we may be generating in the next, let us say, two quarters

will be available for applying to our capital requirements, capex requirements. And if at all, if there is additional amount, we can always draw down on the loan. I mean you see the debt from INR1,167 crores in March, it has dropped to something like INR910 crores, including the bill discounting.

Rajkumar Vaidyanathan: Thank you sir

Moderator: Next question is from Agam Shah from Agam Investments. Since there is no response, we'll move on to the next question from Neeraj Thakkar from Profit Tantra Financial Services LLP.

Neeraj Thakkar: So, sir, my question is regarding the margin. So this is what we are aspiring for the double-digit margin. In next 1 or 2 years, if we reach the double-digit margin, how much free cash flow approximately figure, how much we can expect, sir?

Srivats Ram: No, it depends. It depends on what our investment plans are at that time, how much we're expanding. So the free cash flows will depend on the capex that is there. It also depends on how the industries and the various segments are growing. So it's very difficult to say what our free cash flows are going to be there because it depends on what is the business cycle at that point of time.

But needless to say, my broad belief is the next five years is a good time for us to grow as a country in terms of manufacturing, and we will continue to make investments that give us an opportunity to grow.

Neeraj Thakkar: Operating cash flow, sir, if you can give any idea, sir, operating cash flows?

Srivats Ram: I don't have any idea what my operating cash flow is 2 years from now.

Neeraj Thakkar: And sir, regarding this windmill machining business, like as you mentioned in the previous con call that much doesn't come into the top line, but it is more of a- because it's more of a job work, more flows into the bottom line. So how do we see this business growing? Because you're already a double-digit margin business. So next 2, 3 years, how do you see this? You are seeing considerable capex also in this?

Srivats Ram: Yes, yes. So allow me to answer, essentially, we are, machining products which are made by a casting manufacturer. That casting manufacturer recently, they're doing about 3,000, 3,500 tonnes a month. They have recently expanded from 3,500 to 5,000 tonnes a month, which we should start seeing from December, January onwards. So that is step 1.

And step 2 is they will look at maybe a year, 1.5 years down the road, increasing that from 5,000 tonnes a month to, say, something like 6,500 tonnes a month. So they'll do 1,500 tonnes at the time. So from that, you can see that next two years, we should look at doubling what we are doing currently.

Neeraj Thakkar: So I think INR20 crores per month run rate will be there.

Srivats Ram: Yes.

Moderator: Next question is from Anandh Dharshan from 360 ONE Capital.

Sailesh Raja: Sir, this is Sailesh Raja, Anandh's colleague. Sir, I have two questions to ask. One is we have achieved exports revenue of approximately INR760 crores in first half. So what is our full year revenue guidance for FY27? Could you also provide the breakup of exports between auto and industrial segment?

Then within that, sir, several auto ancillary companies are witnessing strong demand from overseas market, driven by this cost competitiveness, then product quality, and we are also adding capacities. So against this backdrop, I just want to know what is your exports, the growth that you are expecting for the next two years?

Srivats Ram: Yes. -- when you look at our strategy, some of the windows in the strategy, notably the industrial wheel demand where we are already a leader, will be very export-oriented. Hydraulic cylinders will also be export-oriented. Cast aluminium and air suspension, of course, will be domestic and the windmill sector will be also export-oriented.

Yes, exports showed substantial growth and large part of that growth actually happened in the U.S. So our U.S. business grew 50%, largely driven by earthmover wheels and windmill-related products. So as you said, INR760 crores, it doesn't take too much to extrapolate that to doubling from that level for the full year.

Our focus in this year is actually more towards winning new export business and executing on domestic business right now. So we take from now to March, we are really looking at how we can ramp up our domestic business in terms of production to meet schedules and new businesses that are won.

But in the next year, we will definitely be looking at how we ramp up our export business as well. So we are having a number of discussions with customers who are looking at schedules and how we're entering new customers and stuff like that. That will clearly pan out more in the next year as opposed to the current year, at least next calendar at the very least.

Sailesh Raja: Okay. Okay. Sir, that is great to hear. And sir, secondly, you previously indicated that we are targeting 10% to 12% market share in passenger car alloy wheels. So based on my calculation, it would imply increasing monthly volume from current 35,000,- 40,000 to 1 lakh wheels, right, sir?

Srivats Ram: Correct. Per month.

Sailesh Raja: Yes. So at this volume, what EBITDA, PBT margin that we can expect, sir?

Srivats Ram: Like previous colleague had asked, we're looking at something like 10% to 12% at this level.

Sailesh Raja: Within the year, sir?

Srivats Ram: 10% to 12%, once you reach 100,000. We'll probably reach 100,000 by Q1. That's kind of what we're expecting.

Sailesh Raja: Sir, I'm asking about the margin, sir?

Srivats Ram: Yes, sir, I said 10% to 12%.

Sailesh Raja: Yes, yes. Okay, sir.

Srivats Ram: When we reach 100,000 wheels, we will have 10% to 12% EBITDA, and we expect to reach that level in Q1 of next year.

Sailesh Raja: **Thank you sir**

Moderator: Next question is from Samarth Ashok from Janak Merchant Securities.

Samarth Ashok: Sir, two questions from my side. First is in our alloy wheel, we are predominantly -- we make LPDC alloy wheels, while the Japanese still work on GDC wheels. So do you see any acceptance of Japanese OEMs for LPDC wheels?

And second, in the air suspension business, now buses has reached a decent amount of penetration for air suspensions. And one of the truck OEMs has also launched a truck for air suspension. So how do you see the penetration improving for trucks also in the air suspension Any view on that?

Srivats Ram: Sure, sure. So one is, yes, we make wheels using the LPDC technology. And yes, Japanese predominantly are using gravity die casting. But the fact of the matter is Japanese customers are also buying low-pressure die casting wheels from a lot of the existing manufacturers. So I don't think that low-pressure die casting will preclude us from the Japanese customers in India. This is step number one. As a matter of fact, our joint venture partner, which is not a technical collaborator -- sorry, a technical collaborator for aluminium wheels is a Japanese company, which uses low pressure die casting.

Second question is related to air suspension. On air suspension, you are right, buses have got a fair amount of penetration. Just to give you an idea, our air suspension business in the first half grew by around -- or rather second quarter grew by around 50%. So there's 50% growth. So substantial growth in this segment.

You are right that one of the OEMs introduced a truck suspension, but that is really a fairly low-margin business, and we're not interested in entering the business, which -- any new business, which will be -- show visibility of less than double-digit EBITDA. So we are not entering the truck suspension business. Bus business, which also requires servicing and other such capabilities that we built up over the decades is what we want to service.

Samarth Ashok: Just a follow-up question on the first question. Is this a recent change of the Japanese buying LPDC wheels or it has been there in the past as well? And also, what is the size of wheels that we will be selling, sir?

Srivats Ram: So typically, the aluminium wheels tend to be between 14 inches in diameter to OEM, I say, 14 to 19 inches in diameter is the range, roughly size that we are making change. Yes. So people do not necessarily prescribe LPDC or gravity die casting, but they look at certain characteristics

which the process is able to build in the wheel and there are ways in which you can improve the process even using LPDC and still achieve the characteristics which are required.

Samarth Ashok: **Thank you sir**

Moderator: Next question is from Lala Ram from Sabre Edge.

Lala Ram: Sir, first question is, as of today, by when do you think we will be able to touch double-digit EBITDA margin?

Srivats Ram: Two years.

Lala Ram: Three?

Srivats Ram: Two years.

Lala Ram: Two years. Okay. Second question is beyond -- so if I look at the main levers that you have right now, it looks like aluminium wheels is one -- I think the biggest lever, I believe, given you expect the business to grow significantly fast. Beyond that, would be the which business do you think the second and third in the pecking orders, which will help you in bridging this gap?

Srivats Ram: So our industrial wheel business will also kind of help bridge that gap, but it may be slower to accrete because the number of different as- the variety is huge. So you have to add one product at a time. The other thing is flipping some of the businesses which are low margin, once they reach scale, they become double-digit margins.

So notably, I would say that the hydraulic cylinder business, which is right now a low-margin business for us, can become quite profitable once we scale and we also get into higher value categories. So that's definitely one that I believe can help us.

The windmill business, the machining business, of course, as you scale that business, that's also going to improve your margins. And on air suspension, again, I think once you reach scale and global -- by scale, I mean global scale. So once you reach global scale, then suddenly your costs become better, your efficiencies, your additional cost for additional sales becomes relatively less.

So really scaling our business is the biggest opportunity outside of aluminium. And I believe that we have prospects to do that in, say, our industrial -- some of our industrial tractor-related components, the machining business, the hydraulic cylinder business and the air suspension business.

Lala Ram: Got it. So if I just want to understand that the industrial business, today, it is fairly small. How big that it can become in the next three years according to you, 3 to 4 years?

Srivats Ram: Yes. Our industrial wheel business is construction wheel and agriculture tractor wheel, which is INR1,500 crores. So it's not a small business.

Lala Ram: Okay. My bad, I was referring to...

Srivats Ram: Yes, this is overall- but the tractor part of it is largely domestic. So as that export type of business increases, then the margin improvement there will be not unsubstantial. But I will still agree with you. I think aluminium wheel because a quick ramp-up will be the first one to accrete to the margins, followed by probably air suspension followed by hydraulic cylinder, followed by the agriculture tractor exports.

Lala Ram: One more question is, given you have a lot of businesses and within each business, beyond just the product variety, there's domestic market, there's export market. So if I were to take a step back as a shareholder, and I want to understand that if Wheels India has to become a INR10,000 crores revenue company, what will drive that growth? Is it becoming more of a global company and exporting more? Or is it more driving the domestic business? If you can help us understand.

Srivats Ram: Yes. No, I think it will be both. India will continue to grow, and we are growing faster than most of the large economies. And related to that, all the segments in India will also continue to grow.

But we do want to be a global supplier as opposed to being purely a local supplier. So we will also look at growing the businesses. If you're talking about the INR10,000 crores level outside of these current product categories, if at a later date, we look at another category also, we may look at that.

But at the moment, this will get us pretty close to that level, the current strategy, which is there in the slide in front of you, which is basically the industrial wheels, windmill, hydraulic cylinder, cast aluminium wheels, air suspension, that itself should take you quite fast.

Lala Ram: Okay. And at that scale, what do you think our margins could look like? Like will it be at 10% or closer to 12%, 13%? What is the opportunity there?

Srivats Ram: So right now, when you are down looking up, you look at only what is the next level, which for me double digit for me at the moment means 10%. After crossing 10 we can see more, but it should be done.

Lala Ram: Got it. One last question, if I can pitch in.

Srivats Ram: Yes.

Lala Ram: So given whatever core capabilities we have as a manufacturer, which are the adjacent areas that we can enter beyond what we have today?

Srivats Ram: Yes, we have -- so on the industrial side, we can definitely look at whether we can start making modules because in some cases, we do fabrication, we also do cylinders. So whether module expansion is possible is definitely something we can look at.

We're also trying to examine whether there's an opportunity for us to get into components for gas turbines. It's still very early stages of investigation, but we are looking at that. So we work along with our customers. And as and when they open these opportunities for us, we should be ready to take them.

Lala Ram: **Thank you sir**

Moderator: Next question is from Rajkumar Vaidyanathan from V. Rajakumar.

Rajkumar Vaidyanathan: Sir, this is a generic question. So I just want to know do you use AI and AI-related solutions in your manufacturing and your day-to-day working. Just want to know what is your current usage? Or do you expect the usage to go up in the months to come?

Srivats Ram: So, Rajkumar, you seem to think similar to my Board. I answered the same question in my Board earlier today. But broadly speaking, we look at it, we are looking -- we're using AI already in terms of basically quality inspection.

We're using it in terms of capture and recalibration related to improving OEE, preventive maintenance. We are examining how we can do better sales forecasting. So these are some of the areas that we are looking at AI, and we are examining whether we can use it to speed up the product testing and validation process. So these are some areas we're looking at.

Rajkumar Vaidyanathan: Okay. Sir, do you use your in-house resources or do you work with any IT vendors on this initiative?

Srivats Ram: Well, as you probably can see from our margin profile, we can't afford those people. So we end up working with vendors, start-ups. There's a large motley crew of people who provide services in each of these subsegments of AI.

Rajkumar Vaidyanathan: Okay. But -- and do you expect this to kind of help you improve your margins in the days to come, given that the impact it can provide?

Srivats Ram: I think in terms of improving your efficiencies, it can definitely help. probably more so in some sectors as opposed to others, but we do feel it can help. Is it absolutely game changing that it transforms the products that we make and all that? Very unlikely. We are -- I mean, if I can put it very crudely, we are in the metal bashing industry, and we still need to bash metal.

Rajkumar Vaidyanathan: Got it. Sir, two more housekeeping questions, if you permit me, can I ask?

Srivats Ram: Okay.

Rajkumar Vaidyanathan: The first one is, given that you have significant export, I just wonder what is your current hedging policy? Do you hedge or you don't hedge? Because last call, I think the CFO mentioned you also import raw materials. So I just want to know, do you just leave it open or?

Srivats Ram: No, we look at the net exports. So we -- yes, you're right, we also import. So we look at net exports and the net export level, we see whether we need to take covers. It's a dynamic situation. The extent of cover also depends. We work closely with consultants, that is Rajwade and all that and then based on the advice, we make the cover.

Rajkumar Vaidyanathan: So you take only short-term covers, no long-term hedging?

Srivats Ram: No, no. Maybe 3 to 6.

Rajkumar Vaidyanathan: And last question is on the other current assets have gone up by almost INR100 crores between March and September. So the CFO could answer that question.

Srivats Ram: Ramesh?

P Ramesh: Yes, sure. See, the -- after the introduction of GST 2.0, the GST structure has become inverted. So we are applying for refund and getting the refund. So as of now, there is a bit of funds which are blocked up in terms of the GST...

Rajkumar Vaidyanathan: Okay. So do you think this will be prolongated or it will get -- because there were some relaxation given the last year.

P Ramesh: See relaxation is given in terms of services, like you can also ask for a refund in terms of services. So we are working and we are like -- I mean, we collect refund through the export route and through this inverted duty structure route.

But still, we have a challenge of about INR130 crores to INR140 crores, which is -- which could -- which ideally should be converted into cash, but we are a bit struggling on that. And we are working on various options on how we can reduce it. Hopefully, we should be able to make some improvement in the next two quarters on this.

Rajkumar Vaidyanathan: But there is no provisioning required for this in the event of not being able to collect that sum.

P Ramesh: No, no, it is a balance in the portal, in the GST portal. So it's only thing that your usage is being delayed, your refund is getting delayed. We are getting refund, but it is getting delayed, yes.

Rajkumar Vaidyanathan: Thank you sir

Moderator: Our last question is from Rakesh Toba from Rakesh.

Rakesh Toba: Yes. I think I have already got two question answers on profitability and future growth from other people. My question is on exports revenue. See your exports revenue has strongly grown for this quarter, which is primarily led by construction equipment base. Given the recent setup of your U.S. and Europe subsidiaries, could you please share the export order pipeline in the second half of this fiscal year? And are there any specific risk margin, which the company is monitoring?

Srivats Ram: Yes, okay. There's no risk margin to the best of my knowledge that we are monitoring, but we continue to see exports as being strong. So whatever we've done in the first half, we should only improve in the second half of the year. Order book looks reasonably strong.

Typically, we work on customer schedules. So customers give monthly schedules, and that's kind of what we work on, but they give us some visibility based on an S&OP. And a lot of these customers are customers we've been dealing for 10 years, 20 years, 30 years even. So it's more

an ongoing business wherein you do a new product development and you get additional business from that.

So we don't really track our order book per se. We just track our monthly schedules and schedules remain strong and at least in the near future, I don't see things slowing down. But we'll wait and watch because this is a very volatile world that we live in. And despite all the duty tantrums that we saw last year, we were able to manage the last year, having substantial exports to the U.S., we did it decently well.

Rakesh Toba: Is there any challenges due to the geopolitical, sir, for your exports?

Srivats Ram: Yes, it will be there, because they keep changing their duties, then they give the refunds, and the customer wants a refund.

Rakesh Toba: Tariffs are not there.

Srivats Ram: All that is there. But it's still -- it's a business that we committed to. See, we want to be global suppliers in some of the product categories. We are global suppliers in some of the categories. So it is really -- we don't look at it as export and domestic. Global customer here, how do we service them the best? How do we do the best job of meeting his requirements. Some of them want, are saying we only want people of global suppliers. So how do we meet that is kind of what we look at. But prospects are quite good. I think people are much more open to Indian products now compared to what they were five years.

Moderator: Thank you. I would now like to hand the conference over to management for closing comments. Over to you.

Srivats Ram: Thank you. Thank you all for joining the investor call, the earnings call. We continue to work on our key strategy along the points which I have shown in this slide. And we will continue to interact with you. We do thank you for all your best wishes and your queries. Some of your queries also make us think and act differently from time to time. So we will definitely continue to engage with you, and thank you so much for your interest in our company and look forward to future interactions with you. Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you all for your participation and you may now exit the meeting.