



“Steel Strips Wheels Limited Q4 FY24 Earnings Conference Call”

May 27, 2024

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MODERATOR: **MR. AMIT HIRANANDANI - SMIFS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Steel Strips Wheels Limited Q4 FY24 Earnings Conference Call hosted by SMIFS Limited.

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I now hand the conference over to Mr. Amit Hiranandani from SMIFS Limited. Thank you and over to you, sir.

Amit Hiranandani: Thank you. Good afternoon, everyone. On behalf of SMIFS Limited, I welcome you all to Q4 FY24 conference call of Steel Strips Wheels Limited.

We are pleased to host the Senior Management of the Company. Today, we have with us Mr. Dheeraj Garg – MD of the Company; Mr. Mohan Joshi – Executive Director; Mr. Naveen Sorot – CFO and Mr. Pranav Jain – DGM (Finance).

We will start the call with initial commentary from the Management and then we will open the floor for Q&A. Now, I hand over the call to the Management Team over to you, Sir.

Management: Good afternoon, everyone. I hope everyone is doing really well. I want to start off by sharing some of the highlights of the past financial year's performance.

So, in terms of turnover, we had our highest value in terms of revenue. So, we had Rs. 4,357 crores. We had our highest EBITDA for the year at Rs. 481 crores, highest net profit at Rs. 220 crores and highest sales volume at Rs. 19 million, highest domestic commercial vehicle volume at close to Rs. 26.67 lakhs, highest alloy wheel volume at close to Rs. 3 million. And some of the other non-revenue highlights are that we have shifted to a new tax regime where the effective tax rate has come down to 25.17% hitherto it was 34.94%. We have also completed the acquisition of AMW Auto Components, and the plant is fully in our custody and upkeep. We have also done some ESG projects in terms of solar and hybrid and we spent up to Rs. 10 crores and in fact we have potential to generate Rs. 9.5 crores in savings from this project.

Going forward, I would like to sort of we have a very open discussion with you on the growth prospects for this year. As we all know that this is an election year and so there is, we have seen a slight slowdown in the CV industry so far and this is going to be followed by monsoons. So,

last year we did the highest CV volume. This year our forecast is ranging from a flat year to somewhat tepid growth. So, not much growth in the CV segment we expect in the domestic side. On the domestic aluminum wheel side, we expect about a 10% growth. This is based on our past performance, past projects that we have been nominated for. So, those projects will come into play, and we expect to have a 10% growth on the aluminum wheel, domestic wheel business. This is all I am talking about is domestic.

Then the two-wheeler industry, we have targeted the electrical vehicle industry and there we are leaders now for wheels and they are in much better value addition on these wheels and this business should grow about 16%. Last year people had pointed out that our passenger car, steel wheel business had declined, and we had mentioned that we had given up some projects of Maruti and because they were not giving us enough margins. So, but this year I am glad to tell you that we are projecting a 10.6% growth in the steel wheel for passenger cars.

And finally, the most important thing is our tractor business, because we have signed out certain LTAs with some prominent customers that is going to lead to a 12% growth. I am assuming that the industry doesn't grow much or rather stay flat, but within the industry by our share of business is going to increase. So, here I can say with prominence that our tractor share of business is going to go up this year and this means about 12% growth in revenue in terms of volume and obviously value also will follow suit.

So, I am talking mostly now in terms of numbers because numbers are really what matters because raw material prices influence the selling price downward and upward. So, I am keeping my focus only on numbers. On numbers, we are looking at 20 million wheels this year versus 19 million last year, and also let me mention here one more thing that the export business that revived last year, we expect this to grow by another 10% this year and in the export business we're adding new product lines like off-road vehicle wheels. We found traction in Europe and in America and slowly but surely, we are increasing our sales in the export front in the OTR segment plus our alloy wheel exports are doing considerably well, I cannot reveal a lot of things in this press conference in this call, but suffice to say that this will be a growth area for us going forward in the future.

This monologue of mine concerns only the existing business, but if you recall, we have added another business line last year and that is going to pay off extra revenues this year starting in September, which is aluminum knuckles. We are the first Company in India to do that. It's an import substitute and last time I spoke to you, we had signed up with just one OEM, but now I can tell you that we have signed up with two OEMs and this is mainly going into the SUV segment cars where the pricing power is much stronger with the OEM, and they definitely want to add more features like better maneuverability of the car by introducing aluminum knuckles. So, this in nutshell explains our past and current year's focus, so I am very happy to answer questions as they may come about. Over to you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shridhar Kallani from Axis Securities Limited. Please go ahead.

- Shridhar Kallani:** Sir, my first question is with respect to the export side where we believe that in the current situation we are facing some issues because of the Red Sea, if you could throw some light on the same?
- Management:** Okay, so last time when I had spoken to you all, I had mentioned about the Red Sea crisis affecting our shipments in January, February and March also. So, more or less that issue per se hasn't been resolved, but customers have gotten used to it and so that's why we feel that issue will not come in the way so much this year and we're projecting a 10% increase in exports. So, in a way, we are a little bit better off because freight from our competitors in Asia like Thailand or Vietnam has increased much much more than the freight from India. So, we now have some advantage, earlier the customers were where you're paying higher freights, now the customers themselves to higher freight rates now for the moment at least the crisis in the Red Sea goes on. So, net-net if I were to tell you very clearly that this year there is nothing apparent as a crisis on account of Red Sea. Customers have adjusted their inventories. So, there will be other dynamics rather than the Red Sea issue that will come into play.
- Shridhar Kallani:** And sir just required some clarification with respect to the nomination order of 8 million Euros that we have received. So, we will be competing with how many competitors, and will there be any competitor from China also?
- Management:** No, I don't know if they consider China in this case or not. But this business was decided based on competition from our European compatriots. So, all the players in Europe would have competed for this business.
- Shridhar Kallani:** And last question is on the CV industry that you had mentioned a flat and tepid CV growth outlook for the current year or if you could just help us understand what the OEMs, any guidance has been given to you with respect to the same because I think one of the...
- Management:** I can answer that very easily, nobody knows. Not even the OEM knows, not even the buyers, nobody in the industry knows what will happen to the CV industry, but what we can be sure, as I mentioned to you, is that we have acquired a bigger market share in the tractor industry. We have acquired a bigger market share in car steel wheel industry, a bigger market share in car alloy wheel industry and we are assuming that the industry will remain flat even though in the industry will remain zero, we will grow in tractor, we will grow in export, we will grow in passenger car steel wheels and that's it. We will grow in the industry while I am making these, but we will go in the two-wheeler industry, we're assuming 16% increase in two-wheeler industry, but also, we increase market share in this. We are the leaders in the two-wheeler wheels.
- Moderator:** Thank you. The next question is from the line of Suresh Jain from NB Investments. Please go ahead.
- Suresh Jain:** I had a few questions. The first one is what is the timeline for the ramping up of the following facilities? One is the AMW, which we have acquired, then whatever the aluminum alloy

capacities we have increased plus the new product that you mentioned aluminum knuckles. So, when do you expect these three things to run up at full capacity? How much time?

Management:

I think it's an important question. So, as you know, we have raised our capacity to close to 5 million wheels in alloy and we are banking on a big growth in exports and also a big growth in the domestic market because the take rate is always increasing for aluminum wheels barring the set back that we had last year when some of the steel wheels got back into aluminum wheels, but we have more market share. As we see, the new models are getting launched, a lot of these wheels, except for Maruti have our wheels, Maruti and Toyota I am talking about. So, that's why we are projecting a 10% growth in alloy wheels domestic. So, not only are exports going to be separate, but domestic itself will grow 10% for us. For example, the five-door Thar with us and we're having a lot of hopes on that vehicle launch. So, I think in terms of filling up 5 million capacity, although we are projecting only 3 million wheels or 10% higher than last year against 3.3 million wheels. We feel that this is a conservative number and if nothing bad happens because of the elections, we can definitely do better, but nailing the final question of when will I sell 5 million wheels? I think next year is going to be very interesting. Next year you should see us cross 4 million wheels and this I am saying not just from the domestic market growth or new businesses that will come to us. It's also because of the other activities that we have done outside India that are going to play a role in it.

Suresh Jain:

The way you have explained now in all possibilities, the current capacity should take care of aluminum alloy wheels demand till FY27 is that...

Management:

More or less, you are absolutely right, but you never know with how things are of now. Let me add to this, you must have read that we have been nominated by top OEM and that was Maruti. So, it's everybody now knows that we have made a breakthrough in Maruti. Now, I cannot say more, but there is a possibility that we build a new factory close to Maruti in Haryana. So, that would be based on our relationship as it goes, follow the first nomination to another nomination and then we hope to have a small but important market share in Maruti going forward. And that would mean that along with our exports and growing the existing customers, Maruti will call for a need to build another capacity expansion. So, FY26, FY27, yes, but we would definitely need to come closer to Maruti. So, I am just giving you a heads up and all to the investor community that we may be coming up with a new factory in Punjab, very close to Maruti.

Suresh Jain:

So, with Maruti, whatever the pricing issue was there, that was only for the steel, whereas we have got the business for aluminum alloy wheels. Is that correct?

Management:

Right. So, there also, I forgot to add here something. So, I don't want to digress. First let me answer all your three questions, but I have one more statement to make after that. So, this is regarding Maruti alloy wheel, right now the business we got is a business that we get into a new change over in a couple of years or less than a couple of years from now and we still have to develop the wheel, but what we are in discussion with is to get more businesses that are going to be a carryover of the existing wheel that we have nomination for. So, that business if it comes will be sizable in volume and attractive price, attractive enough to justify the current

performance of the Company. So, all I can say is that. So, I hope I've answered your question about FY26-27 on alloy wheels.

Suresh Jain: You have covered the aluminum alloy wheels, but what about the other two, Sir? Steel wheels and knuckles?

Management: So, steel wheels mainly a question was regarding AMW. Now what we have seen is that AMW is basically a big giant sitting out there with a lot of possibilities, but we don't see those possibilities coming into fruition immediately. What we foresee there is that we would use that facility to make OTR wheels for which we are already seeding the market in Europe and America and we are getting good traction. So, maybe next financial year we will start working on our new line of new businesses that concern specific very heavy wheel, very big wheels and when that business plan comes closer to our consideration, we will share it with our investor community and that you can ring me up on this issue maybe perhaps around the second or third quarter conference call and you would please ask me about this, so I'll be happy to answer. With regards to knuckles, I think knuckles has been a very exciting journey for us. We should start our revenue growth from September onwards. Revenue is coming in from knuckles perhaps a little bit earlier and this year we should be doing close to about if I am not mistaken, about Rs. 35 crores in revenue and then going forward, we expect this revenue to go more than double and then after that, this revenue to go more than 4x. So, I think I don't want to share a lot of information on this aspect just yet because we are the first mover and we want to keep that advantage secret. So, but all I can say is that the Company is very excited and very happy for making that decision to invest in knuckles. And finally that you have raised a very pertinent point that the pricing of steel wheels was very, very tough especially if you look at our competitor balance sheet and our balance sheet on passenger car steel wheels. So, I can inform you and I have been talking about this in the last one year or so or even less than that, that we are on the verge of a breakthrough with an important OEM moves, one of the biggest and in fact couple of OEM rather to get a price correction that had mired us in low margins for the last two decades almost. So, that good news I can share with the community again while I am speaking to you.

Suresh Jain: Sir, this AMW has, if I am right, I think 50 or 70 lakhs capacity. So, now you're saying that you want to add a new line in FY26 for a bigger size one.

Management: We want to use that equipment.

Suresh Jain: I agree, Sir. What I was trying to ask this whatever the current capacity we have, so how much time to utilize that, that is what the question is?

Management: So, the point is it may never be fully utilized forever, but what we are doing is we are adding capacity in Jamshedpur for example, we are adding a new CV capacity of almost 400,000 wheels that is coming from equipment that was lying in AMW. We're not letting the equipment idle. We're just moving that equipment to other parts of our locations where they're already producing in mass. So, we don't want to create a new cost center just because there's equipment lying there. We want to utilize it more efficiently.

- Suresh Jain:** Fair enough sir, that is very helpful. Sir, my second question is regarding as and when we see aluminum alloy wheels is one of the fast-growing segments and you are also exploring export markets also. So, I know you said another two years is after that only you will be thinking of expanding the capacity, just wanted clarity on assuming that you want to double the capacity at Mehsana, how much can be the CAPEX there and how much time it will take to..?
- Management:** I didn't say I want to double the capacity. I said we will want to.
- Suresh Jain:** As and when we want to increase the capacity, let's say from the current 5 million..
- Management:** Already increased to 5 million wheels, that's what I said.
- Suresh Jain:** I know Sir, if let's say post that, how much time it would take since it's a brownfield, how much time would it take to increase the capacity?
- Management:** It's already increased my friend.
- Suresh Jain:** No, Sir, I know from 5 million I am saying two years down the line.
- Management:** No, as I told you, we will build new capacity in Punjab now.
- Suresh Jain:** My next question is regarding the debt part. See we are at Rs. 1000 odd crores now. So, now we were under the impression that there would not be much CAPEX in the next two years or so, but now you're saying maybe for Maruti you would like to put up a plant somewhere in Punjab near to their factory. So, the question is, again with increase in sales, you will have increase in working capital requirement also plus this CAPEX also. So, what is the management, what is it outlook? What would they like, will this debt come down in the next 2 to 3 years or will it remain in the current level only?
- Management:** On the debt side, I think Mr. Naveen could answer this question better so that he gives full clarity to the entire community.
- Naveen Sorot:** Yes, on the overall debt side, if you look at the debt that we have as on March 24 is Rs. 1,048 crores, which comprises of long term and short term, long term of almost Rs. 487 crores and short term of Rs. 561 crores and this is a jump of almost Rs. 400 crore which is predominantly for us to fund the CAPEX, which was there on the table. The existing capex was almost Rs. 380 crores which we had already shared with the market, which will be incurring this year covering multiple facets the alloy wheel expansion, then knuckles and the renewal energy that we are working with and then the couple of flow forming equipment that we did decide, the general CAPEX that we do. So, along with that, we also acquired AMW wherein the outgo was almost Rs. 140 crores, which raised the total CAPEX for the last year to almost Rs. 520 crores, which was funded by a mix of accruals as well as debt. So, accruals which were generated last year was almost Rs. 220 crores. So, Rs. 220 crores to fund at Rs. 520 and the balance was in the form of term loans. So, what we have done is we have funded all our long-term requirements via long-

term fund with no prepayment conditions so that if the conditions allow subsequently in terms of liquidity, we will intend to prepay. So, as we guided last time that the debt that you are seeing as on March 24 is the peak debt in our books and subsequently it should taper down. So, if you look at the repayments which are scheduled for the next three years are almost Rs. 105 odd crores annually. Along with that, there is a decent accruals which will keep on accruing in our books. So, like Rs. 220 crores last year, this numbers will also improve with the improvement in the volumes as indicated and in terms of overall CAPEX, which was there on the table, I think for next year was in the range of Rs. 225 odd crores which can be funded entirely from the accruals, and nothing needs to be borrowed from the outside market. So, on an overall basis, whatever CAPEX which was there on the table as of now will be funded from accruals. Besides that, there will be Rs. 105 crore of repayment which we will do, which will cut down on the debt side.

Moderator: Thank you. The next question is from the line of Omkar Arora from Eraya Capital. Please go ahead.

Omkar Arora: So, thank you for providing the in-depth information about what kind of numbers you're planning to do next year. Can you also provide us some guidance on the overall sales that you expect on the Company level and the EBITDA growth that you're expecting over the next year, also when it comes to EBITDA growth, are you expecting the margins to stay stagnant or go down since wheel alloy business is not growing as expected to grow at the same pace as the steel wheel business. So, is there any pressure on margins that might come, or do you expect them to go up or stay stagnant?

Management: That's a good question. So, let me roll back to what I had said earlier. So, last year we had projected that we would improve our margins per wheel. So, we are talking only per wheel. So, percentage wise, kindly do not bring into discussion because it gets distorted from the change in raw material prices, which affects the selling price because our raw material prices are pass through. So, but in terms of last year, what happened was that we got some competition from Vietnam and from Thailand temporarily and which got sort of nulled and then again, it came back. So, we had to drop our prices close to 5% to 6% in terms of our export prices. So, that sort of kicker did sort of dampen our export margins and also then we also had some issues in the first quarter where we had to pay extra freights for the deals that we had already contacted with the customer, the OEM customers for example. So, that was a dampener to our business. But if not, there are two things for this financial year, again kindly have a note on that. One is that our growth this year is coming mainly from value-added products. Again, let me remind everybody keep listening to this, please remember this, tractor business is going to grow by 10% to 12%, aluminum wheel business is going to grow by 10% to 12%, and export is going to grow by 10%. So, these three businesses on their own will add to the absolute per wheel margin. So, the 258 margin that you see in the PPT will get in hand. I don't want to put the figure and then start discussing why that has come or why I have this figure, it has not done as well as you projected, but given the fact that all these three businesses are better in terms of margins compared to steel wheel business, which is the main business in terms of volume. We expect that these three things

will pull up the margins to a little higher extent. Secondly, and most importantly, as I mentioned earlier, 10 minutes ago, we have been able to come close to understanding with a couple of OEMs to correct the prices that were depressed for the last two decades. So, that's the historic thing I had mentioned this in the last conference call also with other people also, that has actually happened now. So, once I get a final confirmation, we are very close to clinching the whole discussion. Once that happens, you will see the impact of that itself in the first quarter. So, because that will be backdated from 1st of April. So, I don't want to comment on that, but yes, to your question, margins per wheel should increase because again let me summarize the three businesses that are growing this year are alloy wheels, exports and tractor. All these three businesses have a better EBITDA per wheel compared to the other wheels. Secondly, the price correction in the bread-and-butter business for passenger car steel wheels is seeing a turn around and this has come about because we have acquired AMW. People realize that there is no competition and that the prices were really depressed, and they have agreed to substantially correct our prices and that will lead to better margins per wheel. And you will see that in the first quarter. So, please in the conference call next quarter you please ask me this question.

Omkar Arora: Sir, what is your EBITDA per wheel as of right now and what kind of numbers do you see on that front by next year?

Management: Again, as I said, I don't want to comment on the numbers because last year we did comment on the numbers. We were hopeful to get better numbers, but we managed to get similar number like the previous year. But the point is that this year I have real things in my head. I don't think that there's going to be another Red Sea crisis that will cause we would lose money on the freight. There won't be competition per se, more or less we know who our competition is from Asia. And so we think that those issues will not come as they came last year, plus the most important thing is that we have a price correction on our main bread-and-butter business, 80% or 70% of our business will see some kind of or large part of the 70% or 80% business will see price correction on the positive side. So, 253 was the number last year, so definitely you will see a much better number than 253.

Omkar Arora: So, we have recently heard in the news that Uno Minda is planning to add capacity on the alloy wheel front over the next three years, which is I think around 5 million wheels or something? So, what is it about us that will differentiate us from them in terms of, can you just throw some light on the modes that we have and how we are planning to improve?

Management: I cannot comment on what they are doing. They must have their own strategy. All I can comment is that I have an order book in front of me that is extending up till 2027. I see the numbers. I see the possibility of expanding my market beyond India and that's what I am focused on.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Could you just call out that from the 3.7 million units that you have exported, how much was steel and how much was alloy this year?

- Management:** I think that's a good question. I don't know if we have released this number to anybody, but I can just say that the rate of growth is pretty good for both the businesses and I would like to keep it at that, but it's a brilliant question you asked. I am not denying this and it's a very incisive question, but I don't want to reveal my cards to my competition.
- Aejas Lakhani:** Fair point. Sir, the other thing I wanted to learn was I think you alluded to this earlier that in pricing, you had competition because of which your pricing was lower by 5%, but what is very unclear to me is that if you take the revenues from export which you have done this year, which is Rs. 630 crores and divide that by the volume, thus realization per unit is much significantly lower than what you had done last year on a lower base and that's a little perplexing because your alloy wheel contribution would have maybe been there as a part of revenues this year, which was probably lower the year prior. So, I don't understand the realization reduction.
- Management:** So, there are two things to it. So, there is a raw material price correction, which was substantially in '22-23, the raw material prices went up tremendously. So, those get corrected in the following year. And on top of that steel price correction, we discounted our goods by 5% to 6% as I mentioned. So, if you look at the product mix for '22-23 and '23-24, there has been a big jump in the sale of car wheels and car wheels obviously are not priced at the same level as truck wheels. So, our truck wheel sales have been flat in '23 and '24 versus '22 and '23, but car wheel sales have jumped higher. So, you're right to point out that the price from an average price realization of Rs. 1900 has come down to Rs. 1700, but it is 80% because of the change in the product mix and you would have seen that our exports have doubled or more than doubled in this period that we are discussing.
- Aejas Lakhani:** Got it. So, Sir, at an EBITDA level, there would have been improvement, but we don't know of that number today, correct?
- Management:** So, see percentage wise again, I don't want to go into percentages as I said, but per unit wheel obviously is more than the average that we get generally or even on car wheels. So, it's a pretty good scenario for us.
- Aejas Lakhani:** Got it, the other thing is that could you just comment a little bit about the knuckle casting, I know you've called out a number of Rs. 35 crores, but is the realizations and EBITDA in that business significantly higher than alloy wheels, to what extent can you call that out today?
- Management:** So, as I said, it's a very exciting time for us, I will not want to comment on EBITDA numbers, all I can say is that we are good with it and we are driving well and it's a new age business, so smart people will understand what I mean by these three things. It's a new age business.
- Aejas Lakhani:** Could you just tell me a little bit about because you mentioned that this is an import substitution sort of product, how long did it take, where did you acquire this technology from or is it self-developed?

- Management:** Again, I don't want to comment on this. It has been a joint collaboration with the OEM. The OEM has supported us and we have done the work and we have a very tight relationship with Mahindra, for example, and there's a lot of trust, lot of transparency and a lot of value that we bring to each other, so that has resulted in this happening and after Mahindra, then obviously we have got other customer and we should leave it at that and I think over next couple of years when the sales really go up, people in the market will get mature and people will understand where we're coming from and I think that is something that you all need to keep a good close eye on.
- Aejas Lakhani:** Is there a possibility that an OEM can work with another auto ancillary manufacturer to come up with anything on knuckle casting say in the next 1 to 1.5 years because there's a development time associated as well, is that kind of a possibility does that exist or?
- Management:** That's what we are giving proof of. That's why we started talking about this last year and this year we will start delivering mass production components to them. This is how collaboration is done.
- Aejas Lakhani:** No, my question Sir, is that is it possible that another OEM could be in discussion with another auto anc person?
- Management:** Let's see what happens. I really don't know. This is predominantly an SUV thing and Mahindra is number one in SUV and once they tied up with us, they will not go to another vendor to develop the same thing because this requires a lot of hard work and IP that we both developed jointly, so it's not so easy.
- Aejas Lakhani:** Is there any exclusivity that binds you only to them?
- Management:** No, there's none.
- Aejas Lakhani:** Sir, could you just also provide an outlook of how the steel side of the business, steel side will do in FY24 at a consol level because you have too many segments and it's very difficult..
- Management:** On consolidated level on steel, I don't have the weighted average number with me. Let me repeat myself, 10% growth in the bread-and-butter business, which is steel wheel for passenger cars. So, that's about 70% to 80% of my volume. If I am saying that's going to grow by 10% then that should give you a flavor as to how sturdy the business will be.
- Moderator:** Thank you. The next question is from the line of Smit from Niveshaay Investment Advisory. Please go ahead.
- Smit:** Can you please provide the breakup of other income?
- Management:** Other income is the mix of one profit and sale of asset, then the interest income on FDR and I guess these two are the predominant items there.

- Moderator:** Thank you. The next question is from the line of Chirag Shah from Whitepine Investment Management Private Limited. Please go ahead.
- Chirag Shah:** I have a few questions actually. One is when I look at the steel wheel volume since FY19, they've actually declined for us in domestic market, so can you just give a broad color, is it that tonnage per wheel has gone up and hence number of units have gone down or is it the industry dynamics is driving this or have you lost some market share, how to look at that?
- Management:** I am not able to fully understand what you're asking, but I think my CFO does understand he will answer this question.
- Naveen Sorot:** So, Chirag what exactly you are comparing, you're comparing the PV volumes?
- Chirag Shah:** If I look at the breakup that you share, your steel wheel volumes in FY19 were Rs. 14.1 million, domestic volumes and today it is Rs. 12.5 million, so there is a drop over in volume.
- Naveen Sorot:** But Chirag, you also need to consider the transition which has happened from steel to alloy, so if you are comparing the domestic business for us, you need to also include the alloy wheel number. So, the year that you quoted that is FY18-19, wherein the number was almost Rs. 141 lakhs in terms of steel wheel volumes, there the alloy was almost Rs. 1.94 lakh. If you look at FY24 for us, the steel as you rightly quoted was Rs. 125.55 lakhs, but along with that there was an alloy wheel domestic sale of around Rs. 28 lakhs. So, you need to look at it in total while you comparing these volumes as domestic market is concerned.
- Chirag Shah:** This is helpful. The second question is if I look at the alloy wheel, especially the export aspiration, there seems to be some dampening happening because we were hopeful of taking it to 500,000 in March 25 and our aspiration was to be 3 million exports by March 30. Is there a delay of projects from the OEMs who are supposed to offtake, if you can just comment on that, how should we look at that?
- Management:** Chirag, as far as the aspirations are concerned, we will keep the aspirations high, but then again our numbers are directly reflected in how the industry has panned out. So, if you look at even for the current year as we are quoted that we are targeting 20 million in terms of overall volumes, we are targeting roughly 4 million in export. So, these are the aspirations that we are trying to tap considering how the market situations are, but then see these situations are very dynamic, you never know how the export market pan out going forward. So, let's say things pan out in our favor, the numbers can go even higher than what we are projecting. So, it's a dynamic world, the numbers will keep on changing, the numbers that we have quoted today are based on the reflections that we have today of the market.
- Chirag Shah:** What I was trying to understand is there a delay because if your end customer delays, okay you can't help it, you have to push it back by year or whatever period after it gets delayed from your end customer, especially when you're making an entry into a new model. So, is that the primary reason, is that the way to look at it?

- Management:** As far as we are concerned, none of our projects got delayed. So, we are bang on the timeline that we are following. Let's say for alloy wheel expansion, we were at Rs. 3.6 million by March 24, we are already there and by Q2 of this year, we will be at 4.8 and this is what exactly that we have planned for. Similarly for knuckles, we are at the capacity that we have status quo. None of our projects have gotten delayed because of any customer delay. It is that the growth projections for let's say a year down the line or two years down the line is entirely dependent on how the market pans out.
- Chirag Shah:** I was more referring to offtake and not your capacity.
- Management:** If you look at alloy wheel expansion that we did, once you do and conclude the expense and need to showcase the capacity is available at your end to the customer before the customers are willing to source directly. So, you need to be up and ready with the capacities in hand and for the spare capacities in hand just to get the customer confidence on your side that there are capacities with you which are spare capacities, and you will be able to cater to whatever the demand and subsequent requirements will come up from customer side.
- Moderator:** Thank you. The next question is from the line of Rohit from Samatva Investments. Please go ahead.
- Rohit:** My first question is on you highlighted last financial year we faced some competition from Vietnam and Thailand, so could you just highlight what their capacity right now and how big a threat they are to us especially for the European and the US market?
- Management:** Capacities are immense because they're owned by Chinese owners and they're part of big groups, but I think there is constantly some kind of investigation going on against those companies supply to America and also to Europe. So, going forward we feel that we will really not suffice because the European Union is moving against anti-circumvention. That is Chinese companies set up factory outside China and they supply them cheap raw material that they were already getting in their previous avatar. So, that investigation will continue to happen and we don't see a big threat from them and they're also very careful in terms of quoting prices to compete abroad and lastly their freight costs are sometimes non-competitive because freight from Vietnam and Thailand right now double the freight from India to Europe compared to Thailand to Europe. So, we have a big trade advantage and they should persist. So, you're right, it's something we need to be focused, vigilant all the time. I am glad that you have asked this question, and I would ask you to keep asking me this question every meeting because this is an important question. But beyond that, I cannot say at the moment anything that we will continue to grow our market. We have grown our markets; we are number one in America for this caravan steel wheel business, and we will continue to lock in that leadership for this year also.
- Rohit:** Just one clarification. So, these competitors in Vietnam and Thailand, are they more towards the CV side or are they towards the passenger vehicle side?
- Management:** They are in both CV as well as PV.

- Rohit:** We have done around 19 million wheels, so I just wanted the segment wise split for passenger vehicles, CV if you can give me those.
- Management:** You know, the passenger segment wise break up of 19 million wheels that SGA can share with you, but I don't have the numbers, but I am sure the investment arm will do that.
- Rohit:** Just on the exceptional item, if you could just give me some clarification what is this for?
- Naveen Sorot:** On the exceptional item that you are looking at in the consolidated it is predominantly the write back of the liabilities, which are there in the books of AMW. So, there were some official creditors and other liabilities, which are there in the books. Now our liabilities to pay will be governed by a resolution plan, which got approved by the NCLT. So, if there is a difference between the liabilities, which is there in the books versus what is being approved, the differential is getting write back. So, that's the exceptional again that you're looking at in the consolidated sheet.
- Moderator:** Thank you. The next question is from the line of Aditya Sen from Robo Capital. Please go ahead.
- Aditya Sen:** Sir, is it possible for you to share the realization of alloy and steel wheels?
- Management:** You mean selling price per wheel?
- Aditya Sen:** Yes, right.
- Management:** SGA would have all that information. It can be served to whoever asks them.
- Aditya Sen:** Alright, I'll take it from them.
- Moderator:** Thank you. The next question is from the line of Sandeep Dixit from RJV Advisors Private Limited. Please go ahead.
- Sandeep Dixit:** Just a couple of questions. Number one is you had indicated our revenue guidance of over Rs. 5000 crores in FY25, are we still sticking with that guidance or changing it?
- Management:** More or less we are saying that we will go by 10% this year on the topline. So, that would come out to a number of Rs. 4,800 crores, around that number. I think if there is no election uncertainty and raw material prices being quite okay and interest rate coming down, one can expect that the domestic industry will also do well. I am assuming a 0% growth in the CV industry now. If the CV industry does well, if it grows by 5% that in itself can add a good substantial revenue or jump to us. Similarly, we are assuming a 0% growth in car industry, then again if there is a growth there, we can shot with Rs. 5000 crore number.
- Sandeep Dixit:** Just a followup. We had indicated that AMW will start contributing about Rs. 20 crores per month revenue. So, is this Rs. 4,800 crores excluding that or including the AMW?

- Management:** There is no revenue being estimated from AMW right now, because we are increasing our revenue by increasing capacity in Jamshedpur. We have a new brownfield expansion in Jamshedpur that should get over by June and that will give us a capacity of close to half a million wheels. So, half a million wheels itself is Rs. 4000 is about Rs. 20 crores odd per month, which is about Rs. 250 crores a year. So, that's the kind of revenue that already we are doing it in Bhuj, we are doing it in Jamshedpur. This brings more economies of scale, and we don't have to open up a big account on a big asset and ran it very sporadically or at a lower rate. So, this answers your first question about Rs. 360 crores revenue coming from AMW. It's actually coming from Jamshedpur because we have taken that equipment line to Jamshedpur.
- Sandeep Dixit:** You had indicated that will be about Rs. 20 crores per month, is it operational or yet to be operational?
- Management:** As I said, June it will get operational. Addition to that, it will get operationalized in June.
- Sandeep Dixit:** My second question is on your per wheel EBITDA margin, now that you have said that about Rs. 256 per wheel, what was it in Q4?
- Management:** I think about the same Rs. 250 plus/minus we are being operating at, so Rs. 255 has become Rs. 253 that's what I am trying to say.
- Sandeep Dixit:** Is that for the full year or full quarter?
- Management:** Rs. 255 is fourth quarter, Rs. 253 was the full year.
- Moderator:** The next follow up question is from the line of Suresh Jain from NB Investments. Please go ahead.
- Suresh Jain:** Before getting back on the debt issue, I had two smaller questions. One is are we the cheapest cost manufacturer of aluminum alloy wheel and with the introduction of this flow form technology for this product, is there any improvement we could achieve?
- Management:** You are right to say that India has the lowest cost of manufacturing base in the whole world. So, we are no exception to that and with regards to the flow form wheel technology, it makes the wheel lighter. As a result, you get a weight saving on the cars, which is very important for electric cars now and so it's an add-on feature that is part of ESG, is part of electrical vehicle manufacturing. So, you can call it in many ways that is less raw materials, less natural resources and that helps the planet as well as it also adds storage to the EV cars because you get better mileage from the battery.
- Suresh Jain:** Second is I had read we had the plan to enter into casting of the steel for the automotive industry, is that is still on or we have as of now hold it back?
- Management:** No, we never said that. I don't remember saying that we're getting the steel casting at all.

- Suresh Jain:** The last one is about the debt part. To the CFO sir, thanks for all that info which you had given. So, what my worry was the debt what we have on the books as of March 24, Rs. 1048 crores, so we are generating enough cash flow, but again a lot of CAPEX have been planned and there is also an annual payment which you have mentioned. So, the increase in sales again will require more working capital, so my question was going ahead, this debt level of Rs. 1050 crores or whatever is there, will it remain at the same level or it may go further up, is that understanding is correct or not?
- Naveen Sorot:** There are two parts to it. So, if you look at the overall debt levels, I guess we indicated last time as well that the debt that you are seeing as on March 24 will be the peak debt that will be there in our books and going forward, there will be two things that will happen; one is the natural repayment, which are there on the table, which is almost Rs. 105 odd crores for next 3 years, so which in any case will definitely happen. Second is as and when we get opportunity based on liquidity that we have in hand to prepay will prepay. So, for next 3 years if you look at, let's say if you repeat the performance that we did in FY24, you will have an accrual post interest, post tax, post dividend and post repayment of almost Rs. 200 odd crores, which will be good enough to serve whatever CAPEX that we plan to do for next year. If we're planning somewhere around Rs. 225 odd crores, so that can be mitigated fully by accrual and there will be reduction of almost Rs. 100 crores in the term debt. Next to next year, if there is nothing substantial, which is on the table in terms of CAPEX, the entire accruals can be used to prepay the liability. So, as far as debt is concerned, we believe that the debt, which is there on March 24 will be the peak.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.
- Pulkit Singhal:** My first question is on the domestic alloy wheel growth. We have had a growth of just 10% in FY24 and you're guiding to another 10% in FY25, and the SUV growth has been quite substantial last year and the year before, I am just trying to understand, is it that we are losing market share and that is why the growth is coming down in domestic alloy wheel within your customers or is it just a function of you not being present in Maruti and Toyota?
- Management:** You have directly pointed out that it is a function of the couple of big OEMs wherein we are not there in terms of serving, otherwise in terms of wherever existing businesses that we are serving, the market share is intact, in fact it is growing. Now with our entry with the biggest OEM, which is there, I guess this business should further improve. Pulkit, your point is well taken because the larger amount of the growth has come in from Maruti because Maruti has taken up a larger share of SUV and has grown from that segment itself. They are struggling on these smaller and mid segment cars and they've taken up the due course of growth and a little bit of market share back from the market because now there has been SUV and I feel there is also a concern, which I think, we have shared for the industry in many calls wherein there are three types of wheels, which is steel wheel, another one is high vent hole wheel and third one is the alloy wheel. So, there are OEMs, all of them, who are trying to understand the cost impact where the sales are not happening. So, to optimize the feature, a little bit of alloy wheel concentration has moved from alloy to high vent hole, where the cost of per wheel ranges from Rs. 4500 to maybe Rs.

1500. This is much cost optimization that a lot of OEMs are trying to optimize, and I see it has resulted an industry wide increasing of 36% to 37% and it started from maybe 30% last year and you found a little bit this percentage in the last 7-8 months, this 37% is stagnant at 37% and we are visualizing that how this 37% will move towards 38% or 39%. We had interactions with many OEMs, where they are all projecting that this 37% will not immediately go to 50%, but they see this 50% happening over next 3 to 4 years.

Pulkit Singhal:

When is Maruti expected to take volumes, is it this year or next year?

Management:

The designing concept is already underway right now, the Japan testing will be underway over next 4 to 5 months. The feature which we are expecting right now is that the refresh of each model will now come to us, right now we got only one model, but over the next one year, close to 7 refreshers are coming and all of them are going to be coming to all the three vendors now and I feel it's a journey which has started. I am not thinking of any revenue in this financial year, in next financial year the revenue will start falling in. Revenue potential from this first RFQ is close to Rs. 45 to Rs. 50 crores and potentially Maruti is indicating that they are anticipating close to 40% of alloy penetration over next 4 years from currently 29% to 30% and over next 2-3 years, I hope that we will be able to grab a minimum 20% to 25% market share in Maruti.

Pulkit Singhal:

The second question is on exports, after a very good initial spurt which took us to Rs. 800 odd crores of revenues in FY22, now we are closer to Rs. 630 crores. It came down, although we jumped quite a bit last year, but the conversation also is more about 10% to 12% growth only. I mean the export market is quite huge and I thought there will be a lot more optimism in terms of growth with the exports, whether it be alloys or steel or whatever, but why is there that certain level of optimism is lower now, that is 10% growth from an export market perspective is much lower. What do you think?

Management:

I think your point is valid, the larger growth perspective from the aluminum side is fairly very large and we feel that this percentage is going to be much higher. We are a little bit concerned on the steel wheels right now because the degrowth, which is happening in terms of the economic cycle on the business is not predictable. What we anticipate right now is that as the MD of the Company said, we have dropped the prices and give the benefits to sustain the margin with the volume to the range of 4% to 5%. We do not want to just give away everything and there has to be sense that this has to be done and that is not only price. So, right now engineering is also coming into picture. On the steel wheel side because that's a very nascent kind of a market and it doesn't grow at 5% to 10% kind of thing. Alloy wheel 100%, there is a very large amount of growth, which is anticipating. We will try to update you over the next maybe 2 quarters or 3-1/2 quarters where long term agreements will be coming into play into the aluminum alloy wheel side on aftermarket as well as on OEM and that is where it's going to be the higher run rate on the export side from a potential market, which is very large. So, I think we are targeting around Rs. 700 crores to Rs. 720 crores in terms of total numbers that we are anticipating in this financial year, which hasn't upside from the industry perspective.

- Pulkit Singhal:** Just a quick bookkeeping question. Is there any tax benefit we will get from AMW acquisition going ahead?
- Management:** I think Naveen is working on that because a lot of OEM ancillaries are working on the same principle, so there is an angle of tax benefit, which is from the accrued losses which comes in and please give us this quarter's time, where we are talking to consultants of taxation and Naveen can give you a little bit of clarity on that subject.
- Naveen Sorot:** So, Pulkit, AMW do have some carry forward losses in the form of depreciation, so that is still being evaluated. So, once we get a hang on the kind of benefit that we can drive, I guess we will share it with the market.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Just wanted to check, Sir, your thoughts on the employee cost, in the last 2 years, we have increased our turnover by roughly 25%, but our employee cost is up roughly 60% to 65%. As companies usually gain scale, we see that percentage to sales coming down, but for us it has been increasing from 6% to 7% to 8.2% now, so does that concern you by any chance?
- Management:** I think with the industry in terms of overall perspective, I think we are around about 7%-8% kind of a number. We are growing in a phase where we anticipate the current assets to contribute close to Rs. 6,500 crores in terms of revenue. There is certain bit of expense, which we are trying to do for future growth. So, this is a normal course of action, where we do not want to compromise on engineering and the demand, which are being generated from export customers. So, there's a lot of input, which is being put up there. The optimization cycle is already underway and it's a part of the process. The intent is that we want to control internally and do not want to concentrate only that to improve profitability. I think there are ways to improve profitability in terms of high product margin and sales, but the focus is that we need to hit Rs. 4800 crores, these numbers will look smaller in terms of percentages going forward.
- Shashank Kanodia:** So, is it now going forward 10% to 12% kind of normal growth ratio we assume for the employee cost?
- Management:** I think we are trying to reduce that 10% to 12% kind of a number. We're trying to optimize that number. I feel this 10% to 12% kind of a growth number will definitely be contained.
- Shashank Kanodia:** Secondly sir, just wanted to check on your adjustment for the exceptional item. So, in a normal scenario, your PAT minus your dividend gets added to your net worth, but in this case there seems to be some adjustment when your net worth seems to be less than this figure. So, any adjustments we have done of this exceptional item adding towards the net worth?
- Naveen Sorot:** So, an exceptional item is forming part of P&L, which again is getting added to the net worth. In that exceptional items, what is happening, there are two parts for it. One is there is a benefit

that you're driving from the write back of liabilities. Second, there is a hit that you are taking in the form of write down of current assets, which is there in the books. So, the net effect is what is visible as exceptional item, which in terms form part of P&L, which is in turn is getting added to the overall profit. So, the net worth is getting improved by the number, which is added there in P&L as far as consolidated books are concerned.

Shashank Kanodia: Your net worth is showing an increase of just Rs. 300 odd crores right, whereas PAT for the year, including the exceptional item is roughly Rs. 675 crores. So, there seems to be some other adjustments also which you have done to your reserves and surplus?

Naveen Sorot: There is another part to it. There is a write back of the equity, which was there in the book. So, those equity has got extinguished. So, those are the directly part of the results. What is there in the write back of liabilities is through P&L. So, what you are seeing in the net worth is the net effect of what is extinguished from the reserve in terms of share capital and what is brought in the reserve via P&L movement of the write backs.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question. I would now like to hand the conference over to the management for closing comments.

Management: Thanks a lot to everyone for giving us an opportunity to express ourselves for the annual results and share our thoughts about the business. I think there will be questions, which are pertaining to AMW and its consolidated impact on the balance sheet as well as P&L. Anybody who has that question can definitely contact SGA or Amit, who have a detailed call on this aspect and I wish that we can connect more and probably see our business site sector, which is starting for the new business verticals as directed by the MD for knuckle business and more plant visits can be arranged to understand the business better one-on-one and thanks a lot for giving us this option once again.

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