



**“Steel Strips Wheels Limited  
Q2 FY '24 Earnings Conference Call”  
October 30, 2023**

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**MANAGEMENT: MR. MOHAN JOSHI – EXECUTIVE DIRECTOR – STEEL STRIPS WHEELS LIMITED**  
**MR. NAVEEN SOROT – CHIEF FINANCIAL OFFICER - STEEL STRIPS WHEELS LIMITED**  
**MR. PRANAV JAIN – DEPUTY GENERAL MANAGER, FINANCE – STEEL STRIPS WHEELS LIMITED**

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Steel Strips Wheels Limited Q2 FY24 post results conference call hosted by SMIFS Limited. 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 telephone. Please note that this conference is being recorded.

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 morning, everyone. On behalf of SMIFS Limited, I welcome you all to Q2 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. 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.

**Pranav Jain:** Thank you, Amit. Good morning, everyone. Hope everyone is doing well.

On behalf of Steel Strips Wheels Limited, I extend a warm welcome to everyone joining us today to discuss our financial results for quarter and half year ended, 30<sup>th</sup> September 2023. I hope everyone had an opportunity to go through the financial results and investor presentation which we have uploaded on the stock exchange and on our company website. I will begin with the capex project and then we will move to our financial and operational performance for Q2 and H1 FY24. Post that we will open the floor for Q&A.

To start with, our total capex spent for H1 FY24 is INR190 crores. We expect for the full year FY24, capex spent to be around INR320 crores. On an alloy wheel brownfield capacity expansion project, which we have preponed the capex for Q3 FY24, for which total capex required is approximately INR190 crores and till date INR130 crores is spent on this project. This project will increase the alloy wheel capacity by 1.8 million wheel rims per annum. It is expected to get completed by start of Q4 FY24.

On this account, we have made a fresh net borrowing of INR160 crores. On steel wheel business, on 12<sup>th</sup> October 2023, we have received NCLT order for acquisition of AMW Auto Components Limited for the consideration amount of INR138 crores, which will be paid within 90 days of receipt of the order and the resolution plan needs to be implemented. We have set out action plans for timely and smooth implementation of the resolution plan. For this acquisition, we expect total capex of INR158 crores inclusive of maintenance spent. We expect AMW plant in Bhuj to become commercially operation by Q1 FY25.

Coming to the half yearly performance of FY24, revenue from operation for the period increased by 3.9% year-on-year to INR2,178 crores from INR2,097 crores in H1 of FY24.

EBITDA saw a 4.8% growth at INR238 crores against INR227 crores in H1 FY23. Profit before tax stood at around INR150 crores and profit after tax stood at INR100 crores with profit after tax margin for the first half of FY24 stood at 4.6%. Revenue mix for first half of FY24 has been 28% from the alloy wheel and balance 72% from the steel wheel business. For alloy wheel rims, sale volume has increased by 6% year-on-year to 14.8 lakh wheel rims. For steel wheel rims, sale volume has increased by 8% year-on-year to 82.7 lakh wheel rims.

On quarterly performance, in Q2 FY24, revenue from operation for quarter increased by 4.9% year-on-year to INR1,134 crores from INR1,081 crores. EBITDA saw a 6.2% growth at INR124 crores against INR117 crores reported in Q2 FY23. Profit before tax stood at INR79 crores and profit after tax at INR52 crores. Profit after tax margin for Q2 FY24 stood at 4.6%. Revenue mix for the quarter has been 28% from the alloy wheel and balance 72% from the steel wheel. For alloy wheel rims, sale volume has increased by 1% year-on-year to 7.7 lakh wheel rims. For steel wheel rims, sale volume has increased by 9% year-on-year to INR43.6 lakh wheel rims.

Coming to export front, Q2 FY24 saw 109% growth in export revenue year-on-year. Export sales has been supported by an improving demand scenario. Export volume increased to 3.28 times in Q2 FY24 year-on-year and 2.88 times in H1 FY24 year-on-year.

With this, now we open the floor for questions and answers. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Abhishek from Dolat Capital. Please go ahead.

**Abhishek:** Thanks for the opportunity and congrats for a strong set of numbers. Sir, you are adding one more product, aluminium knuckles. So, how much capex is required in that segment and how much revenue expectation for FY24 and FY25?

**Mohan Joshi:** So, total capex for the first million will be close to INR200 odd crores and that is on the exterior side. I think it will be between INR180 crores to INR200 crores, which can generate close to INR220 to INR240, INR250 crores kind of a top line. And margin profile, I think we have already discussed previously. This will be broken into two parts. Some of that will be coming in this financial year. Because the mass production is expected by June or July 2024. And this will be half of the capacity and half of the capacity will come into the next financial year.

**Abhishek:** And how much capex you have already done in this project?

- Pranav Jain:** In H1, we already did around INR 15.5 crores of capex. And we expect total capex in FY24 will be around INR50 crores on the same amount of knuckles.
- Abhishek:** Okay. So, as you mentioned that total capex would be around 3.2 billion. So, what would be the capex for the alloy wheels, knuckles and the AMW components? So, in AMW components, this is 1.38 billion. Knuckles would be around 100 crores.
- Pranav Jain:** In FY24, AMW is over and above what we supposed to be INR320 crores. In INR320 crores, around INR190 crores is on the alloy wheel side. INR50 crores is on the knuckle part. And balance is on the other project.
- Abhishek:** So, that means most of the capex would be incurred in FY24 only. And FY25-26 capex would be at a very low side?
- Pranav Jain:** FY25 capex will be on the lower side.
- Abhishek:** Okay. And sir, what would be the effective tax rate in FY24 and FY25? In first half, the tax rate is a very high side at around 31%-32%.
- Naveen Sorot:** FY24 will remain under old tax regime. So, the tax rate will remain at 33 odd percent [inaudible 0:09:14]. So, next year onwards it will be 25% be there.
- Abhishek:** Okay, sir. And in this quarter, basically, we have seen a very strong growth in the export market. So, already export has touched around 330 crores. So, what would be the guidance for full year FY-24?
- Naveen Sorot:** [inaudible 0:09:40] Same as we guided of Rs 600 crores of Export revenue.
- Moderator:** Thank you very much. Just an information to the management. Sir, your volume is really low. It sounds like you are speaking from a little distance.
- Mohan Joshi:** Is this fine?
- Moderator:** Sir, a little more so that the investors can...
- Mohan Joshi:** If the speaker has a problem, we will try to rectify it for the balance of the...
- Moderator:** So, the next question is from the line of Sanchit Narang from Narang Family Office. Please go ahead.
- Sanchit Narang:** Yes. Thank you for the opportunity. Sir, as I was looking through your trade receivables, they have increased quite a lot in respect to the sales increase. So, why is that?
- Pranav Jain:** Yes, the majority is on the account of exports because we have higher receivables days in exports.
- Sanchit Narang:** Okay. Thank you. And, sir, on a follow-up on that only, the US exports as like 69%, majority of it is to the US. So, we are seeing a lot of uncertainty in the U.S. So, we look to diversify it in the future.

- Mohan Joshi:** As of now, the volume breakup, which is coming in, in terms of the future and the anticipation that out of the odd INR4500 crores, we are targeting INR600 crores. We do not see too much of uncertainty coming in from the perspective of the current customers. What we feel that the existing customers will ramp down their China supplies and will ramp up their India listing.
- So, from a perspective of customer consistency, we do not see any problems. And we are fairly confident that given the kind of geopolitical as well as the current economic environment that we are visualizing, no risk of any region-specific issue is expected. What I only expect is that within the US, we expect larger amount of participation coming in next financial year from the alloy wheel side, which is going to give decent amount of growth on the export side.
- Sanchit Narang::** Okay, that's helpful. And sir, any asset turnover guidance for after the capex is complete? All this capex?
- Naveen Sorot:** It will be hovering between 3 to 4 times.
- Sanchit Narang:** Thanks a lot, sir. That's all from my side.
- Naveen Sorot:** On the receivable side, if you look at it in terms of number of days, they have just been partially upward from 24 odd days to 32 odd days. And that is primarily because September month was the best ever month in terms of sales. And exports have really shot.
- Sanchit Narang:** Okay, so we are confident to maintain this cash conversion cycle that is currently there. We don't expect it to go upwards?
- Naveen Sorot:** So what will happen if you look at the cash flow? For the H2, the entire cash flow from operations will flow directly to the bottom line instead of getting consumed in the working capital. I guess whatever consumption or whatever increase that was meant to happen in the working capital has already happened.
- Moderator:** Thank you. The next question is from the line of Ankush Sarvaria, who is an individual investor. Please go ahead.
- Ankush Sarvaria:** Good morning to you all. I have two or three questions from you. The first question is, sir, we have seen an exponential increase in volumes of exports along with the revenue. But that is not reflecting in the margins of our numbers. So, if in case the exports have gone up exponentially, the margins should have increased. Am I correct?
- Mohan Joshi:** So just to figure it out, I think the last financial quarter also, we updated that the current environment of the business is fairly very competitive. And we don't want to lose the market share to US and Europe, to any of the competitors, which is the South Asian countries. And the margin profile is intact with a little bit of benefit going to the customer in terms of some benefit for volume led discounts, which is to the tune of INR2 crores to INR3 crores for the quarter.

And I feel this is a very small cost for maintaining a very high rate of growth for sustaining the fixed cost factor for the factories. But within the future, the factor which remains is that overall business mix is still at 11 to 11.25% kind of an overall margin. And we feel that this is very important to maintain this mix going forward, given the competitive intensity of the business within the scope of the wheels business.

**Ankush Sarvaria:** Okay. My next question is, sir, on the front of acquisition of AMW, do we expect any tax relief in the next financial year due to this acquisition?

**Naveen Sorot:** So on a standalone basis, AMW auto component will be some tax relief based on -- there will be losses which will be carried forward. But on a standalone SSWL, there will not be any tax relief pertaining to AMW.

**Ankush Sarvaria:** Yes. On the consolidated basis, what is the expected amount in absolute terms?

**Naveen Sorot:** So that we are quantifying. I guess that number will be known once the financials of AMW auto component gets drafted. To that, till that time, we get handover. Based on that, we'll be able to quantify what is the carry forward losses it is carrying. And that will be something which will be allowed to be set off. So probably by the time of Q4, we'll be able to give you an exact number of the kind of benefit that we'll get from that.

**Ankush Sarvaria:** Okay. And my last question is, sir, on the front of our relationships with Maruti. As I understand, your filing was that you have discontinued the small margin business with Maruti? And you were expecting that Maruti will also take supply from us in terms of alloy wheels. That was about two to three quarters back. So is there any progress in that or are we still there?

**Naveen Sorot:** So, see on the relationship part, it is not as if that we have changed the relationship per se. It is a conscious call that we have taken based on the margin and the business which was in the table that we declined that particular order. But other than that, whatever order which is there in the pipeline are there with us. On the alloy wheel side, the discussion are going forward well and we believe that very soon we will be out with something on that.

**Moderator:** Thank you so much. The next question is from the line of Vignesh SBK from Ksema Wealth. Please go ahead.

**Vignesh SBK:** I just want to understand your view on the CV cycle. How is it going? And next year, we might see any downturn and how it will impact our volumes?

**Naveen Sorot:** See, on the CV side, the number is on progress. So there is a jump of almost 20% in terms. Volume, which is already witnessed. If you look at in terms of Q2 versus Q2 there is a jump of almost 29% in volume in the CV segment. As we believe that this probably growth will continue for the rest of the year with the election stated next year. I guess there will be an additional impact that we'll see with election coming in from the government spend on infra side. So we believe that this cycle will sustain.

**Vignesh SBK:** Okay, sir. Thank you. And the next question is on the EV side. Are we catering to any EV players and any opportunity sides?

**Mohan Joshi:** See, on the EV side right now, you know, the discussions with the Israeli company is on hold because of the obvious reasons known to everybody. And we hope that the country is safe and the management is also safe. And we are in discussions with them on a daily basis. I think this quarter should not have any development given the kind of circumstances that we have from that country. And we are awaiting the clearances of all the obstacles on the geopolitics on Israel. And then probably we'll be able to update you next quarter.

**Vignesh SBK:** Thank you. So just on the domestic side, any opportunity you're looking at, sir, on the EV side? Domestic players?

**Mohan Joshi:** On the EV wheel side, we are anyway supplying close to 50% of the market, which is the wheels business, which is a hub wheel motor that we are trying to supply. We feel that the capacity expansion of small bit is being done at both the factories in Chennai as well as in Dappar, wherein some amount of money has been spent. And we feel this will take up the EV wheels business to the market share of close to 70%-75% by Q3 end.

And on the controller side, I think, as I said, the Israeli thing is fairly very fluid right now. And it will not look nice to talk business right now with the country. And we are letting the situation resolve its bit. And please wait for one more quarter to settle the things out on the Israeli front.

**Moderator:** Thank you so much. The next question is from the line of Omkar Arora from KCT family office. Please go ahead.

**Omkar Arora:** Good morning, sir. My question is on the lines of employee benefit expense. It seems to have gone up significantly from INR66 crores to INR90 crores if you compared to the same quarter last year. If you can know the reason for the gain?

**Naveen Sorot:** See, there are a couple of factors to it. I guess we took the similar question in the previous quarter as well. Therein, a couple of factors were highlighted. One is...

**Moderator:** Sir, I'm really sorry to interrupt. This is the operator here. Sir, can you please come a little closer to the mic? Because I've got an update stating that your volume is very low and people cannot hear you.

**Naveen Sorot:** On the employee expense side, as we narrated last time as well in one call, there are a couple of factors which is getting to increase. One, there is an increase in the volume. So, if you look at even H1 versus H1, there is almost 7 lakh units which have got added of being sold. Second, there is additional recruitment that we have done on the R&D side. And we are working on that part to probably help us out in subsequent business entries.

Third is on the team that we have built up on the Mehsana wherein we are already expanding our capacity. Since we have preponed most of our capex pertaining to Mehsana, the team deployment has

already been there, who have been getting extensive training so that they can be deployed immediately once the plant is up and ready.

So, that expense is also there. And then there is an impact of increment as well as minimum wages. All these have been bunched together there which has increased and resulted in the spike.

**Omkar Arora:** Sure, sir. Thank you.

**Moderator:** Thank you so much. The next question is from the line of Radha from B&K Securities. Please go ahead.

**Radha:** Hi, sir. Thank you for the opportunity. Sir, I wanted to understand on this 'Aluminium Knuckles' product. So, this was an import substitute product for us. But is there any producer in India currently supplying these products to the OEM?

**Mohan Joshi:** So, as you rightly said, it is an import substitute and currently nobody is producing it. And as you know that this business has the potential of repeating its growth story like you have seen in alloy. So, currently the penetration is less than 1%. And we feel that, with the EV culture coming in and premiumization of the vehicles, the conversion of cast iron knuckle to aluminium knuckle will follow very, very soon.

And we feel that domestic production capacity will give enough reasons for localizing it. And we feel that as an opportunity over next five years, this opens up an opportunity of INR2,000 crores to INR2,500 crores worth of an industry exposure, given that what is this sense that we have in the western world. And we are just trying to get in this technology and trying to work out on this. And hopefully, over next financial year, the financial performance of this business will also be highlighted.

**Radha:** Okay. And sir, currently in all the OEMs are using, if my understanding is correct, all the OEMs are using steel knuckles. And we are putting up capacity for aluminium knuckles?

**Mohan Joshi:** Yes.

**Radha:** Okay. And sir, what would be, as you had mentioned, the margins would be very high. So, would it be for this business? I could not get the total...

**Mohan Joshi:** On the margin side, we said that the margin profile will be similar looking, as we are estimating right now, will be similar looking like alloy wheels. So, please give us some more time, because actual productionization will take another six months or so. I think in Q1 or Q2 of next financial year, the real picture will come into it, whether it is a little less or a little more.

**Radha:** The total capex we are doing for this, you mentioned, is INR200 crores?

**Mohan Joshi:** Yes.

- Radha:** And what was the revenue potential you mentioned, sir? I could not get that.
- Mohan Joshi:** As I said, it is going to be between INR220 crores to INR250 crores.
- Radha:** Okay. Understood.
- Mohan Joshi:** But the de-bottling will be tried once the capacity is up and running.
- Radha:** Okay. Thank you.
- Moderator:** Thank you so much. The next question is from the line of Rohil Gandhi from PPFAS. Please go ahead.
- Rohil Gandhi:** Yes. Hi. Thank you. Actually, my first question is relating to the alloy wheel capacities that you have set up over time. I just want to understand, so when I look at the, I believe the current capacities of almost up to 4.8 million, you will be setting up for almost a total capex of around INR800 crores to INR1,000 crores.
- I just want to understand how, your capex, when I compare to some of your other competitors, has been a lot more efficient. So can you just shed some light as to how you were able to manage that?
- Mohan Joshi:** I think efficiency, I don't know how to compare it. We are spending the money as it calls from the vendors. And the majority of the capex in the first phase has been done on Brownfields. So obviously, once you do a Brownfield, it becomes a little easier than, rather than doing a Greenfield. So imagine this, if I do this 4.8 million kind of a capacity over three sites, then obviously the capex will be very different because of the utilities and the land and all the development that we have to do.
- But in our case, right now, efficiently, it has been done to the extent that first 35 acres of the land was taken up for, in resizing the factory that we are going to be putting up a 5 million plant. And if you have to replicate this, the second phase of the land will be used. So efficient capital allocation by us as well as the team. And that's what I can talk about.
- Rohil Gandhi:** So was it that the land was already on your books and then you repurposed it towards the alloy wheels, which is what helped you?
- Mohan Joshi:** No, so land was taken while we conceived this concept of alloy wheels. The first phase of 70 acre land was taken up maybe six years, seven years back. And the first phase was developed because, that's what the land was, utilized for. So within that first facility, we built up from 1 million to 1.5 million to 2.5 million to 3 million and now to 4.8 million.
- Rohil Gandhi:** Right. Understood. And can you also talk about what is the outlook on the global steel wheel market and what is the current size of the steel wheel market globally?
- Mohan Joshi:** I'll not be able to give you a picture of globe because, it's a very, very, very tough question because

this is a very dynamic kind of a situation. But I can give you a perspective of alloy wheels, which is, as I said earlier, also that 350 million wheels of aluminium wheels is getting consumed every year. Out of that, India contributes close to 9 million to 10 million wheels as the pace we are running right now.

At a percentage of 37%, 38% of wheel penetration. And we feel that this 37%, 38% over the next two years will reach towards 42% to 45% to give you a double digit kind of a growth, maybe a lower double digit kind of a growth. And steel wheel is fairly known about India. But globally, I'll not be able to give you a perspective in terms of what is the big scale market in terms of total market that we have.

**Rohil Gandhi:** But even, sir, if you're able to in a broad percentage terms, I just wonder from my understanding is just how large that market would be? Would the steel like be 5% to ...

**Mohan Joshi:** We are doing close to, 3.5 million, 4 million in terms of steel wheels this financial year at best. So if you talk about the overall market, we are doing not more than 10% of the global market. Which includes the OEM business as well as the aftermarket. And which also includes all the segments of wheels that are being produced and used.

**Rohil Gandhi:** Right. Got it. Also with respect to the AMW acquisition, would we be foreseeing to take on some more debt to finance that acquisition now that considering that the cash on the balance sheet is just about INR36 crores?

**Naveen Sorot:** I guess the total amount that needs to be paid at the time of taking over the project is almost INR138 crores. To start with, what we'll do is, we'll avail a loan of almost INR100 crores and the balance will be funded from the balance sheet.

**Rohil Gandhi:** Got it. Understood.

**Naveen Sorot:** But in any case, this year we are capex heavy and there are big capex that we have undertaken. So maybe in the next 2-3 years we'll provide an opportunity to repay most of the loans that we'll be availing now.

**Rohil Gandhi:** Right. And what would you say is your sustainable inventory turns and your asset turns going forward? Especially, I want to understand the cash conversion cycle. What would be the sustainable number going forward?

**Naveen Sorot:** So if you look at in terms of cash conversion cycle that we had even historically, we were in the range of around 60 days odd levels to 102 days. This got better in FY '23 because debtordays were on the lower side where the number was almost 48 days. In H1, if you look at numbers, we are almost closer to 55 days.

And where in inventory days have come down, the receivable days have slightly increased and the payable days have come down. So there are further cushion to probably further better the inventory

days. And we expect the number should remain in the range of 50 days to 55 days in terms of overall cash conversion cycle.

**Rohil Gandhi:** Got it. Understood. Thank you so much, sir. I'll come back in the queue.

**Moderator:** Thank you so much. The next question is from the line of Avadhoot Joshi from Bryanston Investments. Please go ahead.

**Avadhoot Joshi:** Hi. Good morning. Thanks for the opportunity. Just one question. In alloy wheels, we have seen a jump in the volumes. It has gone from 7 lakh units to 8 lakh units Y-o-Y quarterly. Just wanted to know what is the share of export business into this?

**Pranav Jain:** In H1, 1.12 lakh wheels we have sold in exports along the alloy wheelside.

**Avadhoot Joshi:** So whatever the increase we have seen from 7 lakhs to 8 lakhs in this quarter, how much is attributed to exports?

**Pranav Jain:** Around 90 lakhs wheels.

**Avadhoot Joshi:** Okay. So most of this is attributed to exports then?

**Naveen Sorot:** Can you repeat the question?

**Avadhoot Joshi:** So most of the increase, whatever we have seen, it is attributed to exports then in that case, right?

**Naveen Sorot:** Increase related to alloy or increase in the...

**Avadhoot Joshi:** Just to alloy, from 7 lakhs to 8 lakhs?

**Naveen Sorot:** Yes. I guess if you compare it, even H1 versus H1, the domestic alloy is hovering at around 13.07 lakhs to 13.70 lakhs. It is export which has risen sharply. I guess from 0.24, this number has already reached 1.12 lakhs. So, if you recall, the entire last year we sold almost 40,000 wheel rims. So, we have already surpassed that. And there are orders which are increasing on the export side, specifically for alloy.

**Avadhoot Joshi:** Okay. And again, in the case of alloy, whatever capacity we are putting up, how much would be consumed by exports in that case, right?

**Naveen Sorot:** So far, but we decided internally when we were putting this 4.8 million is that this piece divided into two parts. 3.6 million will be for domestic and almost 1.2 million will be kept for export.

**Avadhoot Joshi:** Okay. And you expect that it will turn out in that manner itself? Not expecting that exports will rise for addition to 1.2 lakhs, correct?

**Naveen Sorot:** No. So then we can decide accordingly once the situation arises where the export interest rises more

than 1.2 million. And that can actually rise when the kind of numbers which are there are overseen. It can rise. But then we will take the decision accordingly based on once we reach that mark.

**Avadhoot Joshi:** Understood. Thank you. That's it from my side. Thank you.

**Moderator:** Thank you so much. The next question is from the line of Chirag Shah from White Pine. Please go ahead.

**Chirag Shah:** Sir, thanks for the opportunity. Sir, my first question is a follow-up on aluminium knuckles. Sir, if I got it correct, you said your capex is INR200 crores, right? And revenue in the first phase would be INR250 odd crores. Is it right what I heard, sir?

**Pranav Jain:** Yes, INR200 crores of capex with a revenue potential of around INR250 crores.

**Chirag Shah:** And that would be phase one. So in case you want to further increase, how will this change? Because I presume a lighter alloy will plant, incremental capex to revenue would be significantly effective.

**Mohan Joshi:** So will it be fine if we give a break-up of the full year capex?

**Chirag Shah:** Yes, sir. No, sir. I'm just short, sir. No worries. I'm trying to understand that.

**Mohan Joshi:** Just say Chirag, the efficiency will depend on various factors in terms of what the customer is asking. It's a first-time kind of a product. It's very, very niche in terms of the machinery. And what we have decided that as a feature, the first phase is coming at close to 1.1, 1.2, 1.3 times of asset turn at a decent amount of margins. And given the learnings of the first phase, the second phase will be decided. So we will not be able to comment on the second phase of the capex of knuckles.

**Chirag Shah:** And I presume that this phase one is only for passenger vehicles, right? There is nothing commercial vehicles in it?

**Mohan Joshi:** Knuckle alloy is only for passenger vehicles.

**Chirag Shah:** Only passenger vehicles. And that also domestic in currency?

**Mohan Joshi:** The export potential is very, very large. But as I said that domestic market needs to be given to the OEMs for at least two years to make a mark on export opportunities. As we are speaking, there are two RFQs which we have come from export customers. They may be RFIs or they may be RFQs depending on how they take it because it's a safety part.

So some bit of experience, some bit of market field experience will give a lot of encouragement to the export customers. So I don't expect export RFQs to be converted immediately. But the way that we have done it in alloy wheels, the similar philosophy will be used in export of knuckles also.

**Chirag Shah:** And sir, is knuckles already being imported and used? And how big that would be as a market size currently? Because knuckles, this would be very specific knuckles on very certain models, right?

This is not a, aluminium knuckles is not a mass market product as of now. It will become over next three, four, five years. Is it the right way to look at it?

**Mohan Joshi:** Yes, because knuckles is expensive than the cast iron knuckles. And it has a value proposition which has to come in from the perspective of various aspects. And the way that aluminium penetration was close to 5% 7% maybe five seven years back and today it is at 40%, we expect a similar kind of a jump up coming into it over the next five years.

**Chirag Shah:** So this is really helpful. Sir, second question was, now, for correctly I don't know how you will be able to address it, but given that your product mix is changing now, with AMW also coming in fold, and I am trying to look at it from a three four years perspective, internally you focus on percentage margins or your focus is on per unit metrics?

**Mohan Joshi:** I think we are making it very clear for past four years that every cost metrics in the company is on per kg basis. And it is cost per kg, margin per kg, EBITDA per kg, we are trying to do that. But there are various mix, we are not, we are into manufacturing business. So like steel and cement, we have all the metrics on per kg basis and we try to address it the similar way. Yes, for the repurchase purpose, it is coming as a percentage, but yes, this is how we do it, internally.

**Chirag Shah:** Because as an outsider, we get a number of units sold and we have got all types of mix, right? So that is what I was asking, nothing else?

**Mohan Joshi:** Eventually, investors will be much more interested to get into the percentage because that is what the eventual, motive is. But yes, because these are business dynamics, which keeps on changing up and down. So we change up and down according to that.

**Chirag Shah:** Okay, fine. And sir, you alluded to a point that there is a rise in competition and you do not want to lose out volume. So this competition is coming from which part of your, part of the geography?

**Mohan Joshi:** I didn't say that there is a rise in competition, I said the competitiveness is increasing. Because when you are taking market share, the market is not growing at 15% on steel wheels. The market is fixed because the world market grows at 2% to 3% only. So the market has to come from one player to another player and within that, there are competitive pressures, which is geopolitics, which is taxes, which is anti-dumping duties, etc. But once you have gained the market share over the past six months, you do not want to give away just for the sake of it and hit your fixed cost. So a little bit of compromise here and there, small bit, we will try to do it and we will try to maintain the large momentum on the export side.

**Chirag Shah:** So my question was, is it southkoreaplayers who are really playing a hard game?

**Mohan Joshi:** I think we will not be able to address that question because eventually the customer doesn't tell us which geography we are competing with. So we know a fair bit of the idea, but obviously pinpointing a specific company or a country or a continent will not be fair.

- Chirag Shah:** But it's fair whether it's Asia, because largely Asia supplying the wheel?
- Mohan Joshi:** Yes, because Asia is supplying the entire wheel component to the entire world.
- Chirag Shah:** Thank you. Thank you very much for the answer.
- Moderator:** Thank you so much. The next question is from the line of Abhash Poddar from Aionios Alpha Investment Management. Please go ahead, sir.
- Abhash Poddar:** Yes, hi. Thanks for the opportunity. So I just had a question in terms of the debt. So we are at INR800 crores net debt number. So how do we think about debt going forward? Say in F'24, we may have to take incrementally INR100 crores of more debt. And for F'25 as well, we may have to do the knuckle capacity, which is INR150 crores more since you're spending INR50 to INR60 crores this year. So if you could talk about what would be debt, say in F'25 if possible, or in F'24 end each year, and what is the debt number that you're comfortable with at the debt season? So if you could just talk a bit about that, please?
- Naveen Sorot:** Abhash, I'll take the last question first. What is the comfortable number in respect to debt? So if you look at the last four or five years that we have been working, the peak financial leverage that we had was almost five times. Today it's somewhere around 1.6. On the capex, so as Pranav pointed out, that we are doing almost INR320 crores of capex in SSWL.
- Which is divided across multiple projects. Primarily it is alloy wheel, and knuckle. And then there are a couple of smaller projects with respect to renewable energy, which is nothing but rooftop solar as well as hybrid. Then automation, and then some maintenance capex. So of that, we have done, in fact we have pre-pone most of the capex, which earlier we were thinking of probably dividing evenly throughout the year.
- So we had to pre-pone looking at the kind of demand scenarios that we are seeing from the customer side. And a major portion of capex is almost done. So we have I guess done almost INR190 crores from the INR320 crores. And the debt is already taken in the books. So for the later part of the year, we don't perceive that there will be any incremental debt that will be available. And the balance capex of INR120 crores will be funded entirely by accrual. The only debt which will come in will be for this AMW auto component acquisition, which will be almost 100 crores.
- For next year, the capex that we have on table is for this Knuckle, which is hovering at around INR145 to INR150. Other than that, there will be some maintenance capex of almost INR25 to INR30. So all in all, INR180 crores that we will be spending next year. And this can be funded entirely by accrual. And there will be sufficient accruals that will be available in hand to probably taper off the debt that we will be adding today. So over the next two three years, we will again get an opportunity to prepay the debt that we are availing as of now to build this gap.
- Abhash Poddar:** Perfect. Thank you. That's it from my side.

- Moderator:** Thank you so much. The next question is from the line of Aditya Welekar from Axis Securities. Please go ahead.
- Aditya Welekar:** Yes, thank you for the opportunity. So I just wanted to understand how will be the ramp-up profile for AMW plant volumes this year and next year, if you can throw some light on that?
- Mohan Joshi:** So the AMW facility as we shared earlier also, it will take four to six months for ramp-up in terms of maintenance and the line set-up and the power connection and the water connection erections. And in next financial year, we are expecting the numbers to be starting from exports, which is the truck wheels as well as the domestic truck wheels. So we expect the next financial year to contribute maybe 20- 25,000 wheels per month of larger wheels as to start with, and which is a mix of domestic as well as exports.
- This will give you a top line of maybe INR100 crores to INR150 crores in financial year 2024- 2025. And from financial year 2025-2026, we expect the larger number to be coming in based on the business that we have in our hands.
- Aditya Welekar:** Yes, that's helpful. So next question is, you have already given a guidance on exports for this year. So what's the visibility for the next year? Will we expect that the momentum in exports will continue? If you can throw some light on that?
- Mohan Joshi:** So on the business side of exports, we feel that we have guided INR550 to INR600 crores kind of a number. And we feel that we are anticipating that confidence is there to pick this up. We feel alloy exports should contribute further and should add up close to INR100 crores in next financial year from this base. And steel wheel will always be a challenge because various factors like market volatility and freight and this and that. So we feel a 10% to 15% kind of a growth on the base that we make this year will be achievable in next financial year.
- Aditya Welekar:** Okay, understood. Thank you.
- Moderator:** Thank you so much. The next question is from Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Yes, so I just wanted to check. There is a drop in ASP, so alloy wheels, right? From INR4,500 to a unit to INR4,080 to a unit. So is it just a function of dropping Aluminiumprices or is there any product mix impact also?
- Pranav Jain:** Can you please repeat that? We could not get the question.
- Shashank Kanodia:** Yes, so you've given a sales number of 15 lakh alloy wheels as a sales volume for first half, right? Driving a token of INR612 crores. So the derived ASP is INR4,100 to a unit, whereas last fiscal year it was INR4,500 to a unit. So just wanted to check. Is it just a function of dropping in Aluminiumprices or is there any product mix impact also present?

- Mohan Joshi:** No, I think prices are completely dependent on the raw material side. So LME has moved out from close to \$3,000 to \$2,000 - \$2,300 right now. And this \$2,200 will not obviously not in our hands to move up and down. It's a complete pass through. So majority of the business is on the base of raw material. And a little bit of difference here and there will happen because of the product mix. Because right now I think we are supplying the maximum amount of tonnage on the wheel, average weight per wheel as we speak.
- Shashank Kanodia:** Okay. And second, sir, last year we did something like 1.76 crores of sales volume, right? So is it possible to do something like 2 crores wheels?
- Mohan Joshi:** This is what the target is. For this financial year, we are targeting close to 2 crores.
- Shashank Kanodia:** Okay. Perfect. And lastly, sir, on the balance sheet side, so we did mention the reasons for increasing receivables. But your payables have also dropped. So why would your payables drop is what I wanted to understand.
- Naveen Sorot:** So there are two parts to it. One is there is reduction in the inventory levels as well. So inventory days have fallen from 99-odd days to 89 days. Part of the creditors were directly linked to inventory. So that is why there is a reduction. And some of the creditors, because if you look at historically, our payable days used to hover at around 65-odd days. So today we are spending it around 66 days. So we will keep it at these levels. And some reduction might come up because of the reduction in the inventory.
- Shashank Kanodia:** Fine. Sure, sir. Thank you so much. And wish you all the best.
- Moderator:** Thank you so much. The next question is from the line of Sumangal Pugalia. From Rare Enterprises. Please go ahead.
- Sumangal Pugalia:** Yes, thank you for the opportunity. I have a couple of questions. Number one is our alloy wheel expansion to 4.8 million. Will we be able to get to that number this year and progress and utilization levels right now is 100%? So where do you see that going for the year now, for alloys?
- Mohan Joshi:** As I said, we are here at 37%, 38% in terms of the market penetration. And we feel that this utilization will move from 37%- 38% to 42% to 45% in the next two years.
- Sumangal Pugalia:** I am talking about our capacity utilization?
- Mohan Joshi:** I think 4.8 divided by 3.2 is what the capacity utilization for this financial year is going to be. And next year we are anticipating another 50,000 to 60,000 numbers coming into it. So 0.5 million will get consumed the next financial year to reach to 3.8 million- 3.9 million. And balance, 0.5 million will be added into financial year '25-'26. This is a buffer capacity which has been created for any sudden shock to the industry and sudden demand ramp-up. Because of festive season and everything, it doesn't look nice to continue to be under the pressure of capacity shortages.

- Sumangal Pugalia:** And last question on the international business. Are we any closer to getting a PV OEM contract? And what are the discussions and the stages of those discussions?
- Mohan Joshi:** As we have already updated that there are two customers where the discussions are already happening. Out of that one customer, the testing and validation is already done. Second customer also, testing and validation is happening right now. And we feel in next financial year, one of the customers will get converted into mass production.
- Sumangal Pugalia:** Okay. Thanks, all the best.
- Moderator:** So Mr. Oza, please go ahead.
- Rusmik Oza:** Yes, hi. Sir, my question was on AMW. Is there any further incremental cost beyond this INR138 crores we are spending on reviving the operations? And what would be the capacity of AMW in terms of number of wheels?
- Naveen Sorot:** So the total capacity that we are getting will be in the range of 7 million to 8 million and in terms of outflows, the initial outflows would be INR138 crores. Over and above this, we anticipate another INR25 crores to INR30 crores in terms of maintenance. That may not be spend in one go, that maybe in tranches that we will be spending.
- Rusmik Oza:** Okay, thanks. And my second question was on knuckles, sir. In knuckles, what is the total capacity that is coming up in the first phase? And what kind of volumes we could look at doing when we are saying we will do around revenue of INR250 crores. What could be the volumes in that?
- Mohan Joshi:** So for the first phase of the project, it is 1 million kind of capacity without debottlenecking. And with the current juncture of the product mix that we have, in the first financial year, close to 15% to 18% of the capacity utilization will come because we are going to be starting the factory in June-July. And in next financial year, close to 60% of the utilization will come. Currently, there are two customers where the LOIs have been given and we are developing those prototypes and all the process.
- Rusmik Oza:** And the last question, sir, in terms of EBITDA per kg or EBITDA per ton, if you can just give us a little bit of color, how is it spread across steel wheels, alloy wheels, and in terms of exports?
- Mohan Joshi:** No, I think we never share these numbers because of the competitive nature of the business. But yes, while discussions are going on during plant visit, we try to give some color, but not in the constant calls.
- Moderator:** Thank you so much. All right, so the next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, I just have one question. What is the margin differential between alloy wheel and steel wheel, in terms of EBITDA and gross?

- Naveen Sorot:** I think we will be able to give you some broad color of alloy wheels in terms of 525 to 550 in terms of the alloy wheels. And I think steel obviously will depend on various segments.
- Pritesh Chheda:** That is steel wheel as your business and alloy wheel as your business blended. The gross margin differential is 500 basis points?
- Naveen Sorot:** So if you look at specifically for passenger cars, because this is where we are in alloy, so alloy in terms of percentage EBITDA will be hovering between 15% to 17% whereas similar wheel in steel will be hovering somewhere around 8% to 9-odd percent.
- Pritesh Chheda:** Your voice is very low. So you said 16% to 17% and 8% to 9%. That is the number?
- Naveen Sorot:** Yes, that is correct.
- Pritesh Chheda:** So let us say 16 minus 9 is about 700 basis points. Is that the differential also at the EBITDA which goes down?
- Naveen Sorot:** Yes.
- Pritesh Chheda:** Okay. So let us say, I happen to ask you because the entire presentation is on alloy wheel versus steel wheel. So is it possible to share at that level alloy wheel versus steel wheel blended? You might sell alloy wheel to a four wheeler or two wheeler or whatever and you might sell the steel wheel to all. At that portfolio level, is the margin differential lower than this 600 basis points, 700 basis points because you took passenger car as your prime example?
- Naveen Sorot:** So see if you look at in the blended level, because we are not just into passenger car if you look at...
- Pritesh Chheda:** That's why I said.
- Naveen Sorot:** So at the blended level, the percentage gap will probably narrow. CV and tractor segment which will have EBITDA margins and percentages higher than the PV steel. So on a blended basis, that gap will narrow. So if you look at overall from 15% to 17% in alloy, the overall margin that we carry is around 11%-11.5%. So the steel will be holding somewhere in between.
- Pritesh Chheda:** Sorry, I missed it. I couldn't understand the last line.
- Naveen Sorot:** So the gap will narrow if you look at in terms of blended.
- Pritesh Chheda:** Okay. So this 500 basis point- 600 basis point will look like 300 basis point, 400 basis point?
- Naveen Sorot:** Yes.
- Pritesh Chheda:** Okay. And so then the question, just a supporting question, when your alloy wheel rises from 3% of sales to like 30% of sales, but the overall margin still stay at 11%. So what explains that? So is it just because we do the whole business on percentage margin? And that's the reason why we reflected that

way?

**Naveen Sorot:** No. So there will be a couple of things to it. One will be the mix, mix within the steel business. Then there will be a mix between domestic and exports. Because in the steel side, we do both domestic as well as exports. So exports will have a higher margin versus domestic. And the blended, that's where it moves up. And that's where the gap between an alloy and steel narrows. But if you compare just the domestic steel and the domestic alloy, the gap will still remain.

**Pritesh Chheda:** Okay.

**Moderator:** Thank you so much. The next question is from the line of Sneha from SKS. Please go ahead.

**Sneha:** Hello, sir. Thank you for the opportunity. I just have one question. I missed your outlook for FY '24 and FY '25 in the beginning that you gave.

**Moahn Joshi:** The outlook for what?

**Sneha:** Revenue margin?

**Mohan Joshi:** Okay. I think for this financial year, we are targeting between INR4,500 crores to INR4,700 odd crores in terms of the top line. And in terms of next financial year, we are anticipating anywhere between INR5,000 crores to INR5,100-odd crores. Maybe on the top INR5,200-odd crores. And what was the next question?

**Sneha:** Margins?

**Mohan Joshi:** Margin. I think for the first half, we have done close to INR244-odd crores. And we expect this to be repeated for the next half on the best possible effort basis. And we expect the revenue-led, little bit of margin expansion in next financial year.

**Sneha:** Okay. That's what I thought. Thank you.

**Mohan Joshi:** Thank you.

**Moderator:** Thank you so much. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

**Abhishek:** Thanks for the opportunity again. So, sir, what is your revenue and EBITDA guidance? In the last quarter, you had mentioned that you are expecting around 15% Y-on-Y growth on revenue and EBITDA. Is it intact or you have changed the guidance?

**Mohan Joshi:** I think this is what I just answered. On a base of INR4,500 crores to INR4,700 crores, I think INR5,100 crores to INR5,200 crores will be anywhere between 14%- 15% Y-on-Y growth. I believe. I have already cleared it.

- Abhishek:** That is on the top-line growth. And EBITDA side, sir?
- Mohan Joshi:** I think I will not be able to give you any pinpointed answer because it is not going to be very, very easy. But I think it is going to be in line with the current performance that we are trying to maintain. So, margin percentages will be -- that is what the intention is to maintain the margin profile.
- Abhishek:** So, in FY '24 and FY '25, what would be the revenue from the knuckles, sir?
- Mohan Joshi:** FY '24, there will be no revenue recognition. '24-'25, I think it will be close to INR35 crores to INR40 crores atleast.
- Abhishek:** INR25 crores to INR40 crores, in FY '24?
- Mohan Joshi:** '24- '25. July '24 is the mass production. So, it will come only in '24- '25.
- Abhishek:** Okay, sir. Thank you.
- Mohan Joshi:** Thank you.
- Moderator:** Thank you so much. Ladies and gentlemen, due to time constraints, that was the last question. I would now hand over the conference to the management for closing comments. Please go ahead, sir.
- Pranav Jain:** I hope we have been able to answer most of your queries. And we look forward to your participation in the next quarter. And for any further queries, you may contact SGA, our investor relations advisor. Wish you all a happy and prosperous festive. Thank you.
- Pranav Jain:** Thank you.
- Moderator:** Thank you so much. On behalf of SMIFS Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.