



“Steel Strips Wheels Limited Earnings Conference Call”

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MANAGEMENT: **MR. DHEERAJ GARG – PROMOTER & MD, STEEL STRIPS WHEELS LIMITED**
MR. MOHAN JOSHI – EXECUTIVE DIRECTOR, STEEL STRIPS WHEELS LIMITED
MR. NAVEEN SOROT – CFO, STEEL STRIPS WHEELS LIMITED
MR. PRANAV JAIN – DGM (FINANCE), STEEL STRIPS WHEELS LIMITED
MODERATOR: **MR. AMIT HIRANANDANI – SMIFS LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to Q3 FY23 Earnings Conference Call of Steel Strips Wheels Limited 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 '*' and then '0' on your touchtone phone. 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 afternoon everyone. On behalf of SMIFS Limited, I welcome you all to Q3 FY23 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 – Promoter and MD, Mr. Mohan Joshi – Executive Director, Mr. Naveen Sorot – CFO and Mr. Pranav Jain – DGM Finance.

We will start the call with the 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.

Dheeraj Garg: Good afternoon everyone. My name is Dheeraj Garg. I am the Managing Director of Steel Strips Wheels. I am happy to host you today for this conference call. Starting I will go over some of the financial numbers of the company and the basic broad parameters on which you can understand the company's growth. For the current quarter, quarter of Q3 we had an EBITDA of 110 crores this was versus 108 crores last year, but if you total out the EBITDA for the 9 months until December the EBITDA stands at 340 crores versus 349 crores same time last year.

So, 9 months to 9 months there is a drop of 9 crores till date, but you should recall that last year we had mentioned an inventory gain of 60 crores till the 9 months of December last year and if you normalize the profitability based on by removing the gains of last year 50 crores and also I must add that this year until 9 months we have had an inventory loss of 11 crores. So, if you normalize both these numbers you will find that our EBITDA for these 9 months this year stands at 351 crores versus 289 crores the previous year. So, in effect if you strip out the gains and losses of inventory of inventory we actually have gained 21% in EBITDA.

So, this is one very important factor and I want the participants to understand that our performance specifically based on what the company can achieve has been 21% better in terms of EBITDA over last year. The profit after tax for Q3 stands at 43.76 crores this is versus 42.69 crores for Q3 of the preceding financial year. The PAT for 9 months stands at 146.50 crores versus 156.57 crores for the same period last year. So, 9 months to 9 months the PAT has come down by about 10 crores. So, this is mainly on account of the taxation provision.

So, this year we are being charged a full tax because our MAT sort of consolidated value is getting used, but in terms of cash outflow we have 33% less tax outflow. So, on the books it

appears that we are paying 33%, but in effect we are paying one-third less than 33% tax amount. So, in terms of cash flows we are better off than last year. Basically this year in these 9 months we have seen a decline in our exports and that is the primary reason why we have not done a much better job than we should have done basically the exports have declined from 800 odd crores to about 300 odd crores this year.

So, this 500 crores decline in exports has been taken up to a large extent by increase in the Indian market. The Indian market our value-added business-like aluminum wheel business, our CV wheel business they have tremendously grown and sort of taken over the loss from the export market. So, all-in-all we are going to be touching a turnover of close to 4,100 crores which again is a bump up from last year, but for the power performance in exports we have done very well in our existing businesses that caters to the domestic Indian market. I am sure you are aware of that the Indian domestic market has done really well at this year.

So, with this basic synopsis on the business I am happy to answer your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Rajat Setiya from iThought PMS. Please go ahead.

Rajat Setiya: Sir, with regards to the exports business I think our exports business started picking up especially in US because there were some import duties on Chinese exports to the US market, so is that also reversing now, is that also resulting into more business coming in US from China then India?

Dheeraj Garg: You are right that we have been held by the anti-dumping duties and Chinese imports and that is still remains. What I am trying to say is that because of the surplus of inventory in America and the increase in oil prices this year the segment that we cater to has taken a down shift so production has declined in double digit numbers there. So, demand has declined, but nevertheless demand has started to pick up. In fact, today we made a press release also saying that exports in the fourth quarter are going to be one of the best in the whole year and we see green shoots emerging there because the inventory has been run down and the markets are picking up because energy prices have also drop down in America. So, that is helping us and going forward we feel that we should at least double our exports to this year to the American and the European market. We may not reach the numbers that we reached two years ago, but nevertheless we will be definitely doubling our exports from here.

Rajat Setiya: You are saying that this quarter that has gone by is probably the bottom I mean that is the bottom in terms of our exports to US markets?

Dheeraj Garg: Come again exports to the US market what do you say.

Rajat Setiya: You are saying from Quarter 3 onwards we will start seeing uptake in our exports business?

Dheeraj Garg: Quarter 4 yes.

- Rajat Setiya:** And sir the other question was regarding the strategy that we will have for our alloy wheels products in the exports market if you can help us understand a bit about the strategy?
- Dheeraj Garg:** Strategy of the alloy business.
- Rajat Setiya:** Yes alloy business in exports?
- Dheeraj Garg:** So, this is a good question you are asking because this year our alloy turnover has gone up to almost 1,000 crores for 9 months and going forward we should add another close to 1,200 crores we should end up doing. So, this is an increase of almost 120% over last year. So, going forward I think we may not have this tremendous growth because most of the capacities are now fully utilized. We are adding another capacity. We started with 1.5 million wheels today we are at about 3 million wheels. We should be at around 4.5 million wheels by June this year. So, we would theoretically add another 50% capacity from where you are sitting right now and when we look at our three-year plans our capacities is getting sold out within this financial year on a annualized basis. So, this export business we can easily go up 50% from here.
- Rajat Setiya:** So, you are saying from 3 million to 4.5 million will be our alloy wheels capacity and this capacity you are saying additional capacity will be utilized within this year?
- Dheeraj Garg:** Not entirely, but on an annualized basis towards the end of this financial year we are hitting that rate that is required to produce 4.5 million wheels.
- Rajat Setiya:** And this incremental sales will be going to export market you are saying?
- Dheeraj Garg:** Also the export market, also the Indian market because we have one certain new programs from our existing customers. So, our market share within India is going to go up and plus Indian market will go up.
- Rajat Setiya:** Sir my question was largely regarding the exports strategy is it regards to the alloy wheels I mean how are we going to plan the market, what will be the sales channels?
- Dheeraj Garg:** So, right now we are constraint by our capacity and as I said I did not mention this, but I can say this now that we could have done more volume in our exports business, but for the lack of volume and that is being made up right now as we speak. So, every quarter we have added some small capacities, but the major capacity uptake will happen by June or before June rather. So, that should help us open up sizable volume that the million wheels to the European and the American market and already we are in discussion that already we are starting to supply to many important customers in the US and in Europe in the aftermarket, but besides the aftermarket we are also targeting the OEM market and we are making very strong headwinds in that market I do not want to reveal names of the OEMs yet because it is also we want to avoid our competition to know or strategy is complete, but yes we are going to be targeting the OEM markets which is going to be the major what should be a delta change in our exports. So, that could take a major chunk of our exports out from a production capacity.

- Rajat Setiya:** And finally on the overall CAPEX and the debt part if you can help us understand how much capital expenditure we are looking to do in the next three, four years and what will be our peak borrowing levels?
- Dheeraj Garg:** So, all that is very difficult to give you on a pinpointed basis what will be our peak borrowing levels, but this year we are doing a CAPEX of close to 140 crores, 150 crores next year should see about 150 crores plus the acquisition of AMW, but again that is still not decided yet. So, going forward I can tell you some of the things that we are doing the aluminum wheel expansion this current CAPEX this year versus and what is going to happen in the early part of next year means a lot of it is going to go to the aluminum wheel capacity enhancement plus as you know we have signed up with the Nirali company to start making controllers for EV so that will take a capital outlay of about 20 crores and going forward as we see how we expand that could go up to a 100 crores depending on how the market responses plus we are doing something in the casting space, we are coming out with an import substitute there is nobody else making that casting part it is in aluminum I do not want to reveal the name of the products for a competitive reasons that is going to entail a CAPEX only in FY24-25 or towards the end of FY24 and going into 25 that CAPEX is going to be to the tune of about 100 crores. So, not too much on the horizon our normal Brownfield work in CAPEX is close to 40 crores. So, if you put that altogether I do not see much needs for borrowing going forward, but there will be some increase in borrowing depending on how and when we get the AMW projects, but that again will be temporary bridge borrowing because we feel that our EBITDA margins and absolute EBITDA gains will be good enough to pay back all those investments in a pretty short span of time and you already know that we sort of started prepaying our term loans this year, we pick up our term loans to a large extent prepaid them actually and Naveen where are we now on the term loans, what is the level of term loans?
- Naveen Sorot:** 260 crores was the number as on 31st December of that again we have repaid 25 odd crore in Jan.
- Dheeraj Garg:** So, what is the number now what is the total term loans?
- Naveen Sorot:** Rs. 226 crores.
- Dheeraj Garg:** Well 226 crores versus what it was one year ago when this financial year started?
- Naveen Sorot:** 375 as on 1st of April.
- Dheeraj Garg:** So, you have seen that we have almost paid off 150 crores in about 10 months and I think cash flows are very healthy and we do not see that as an issue for us if at all it will be raised for a short period of time because continuously our EBITDA again will set off all the requirement for taking any further loans.
- Rajat Setiya:** How much CAPEX for the alloy wheels?

- Dheeraj Garg:** CAPEX of alloy wheels is going to be about 150 crores, 160 crores since I think beginning of this financial year Naveen correct me if that is incorrect.
- Naveen Sorot:** Yes that is correct so this year the total CAPEX that we are expecting is in the range of 150 to 160 in total. For next year our number is expected to be again hovering around these levels that is quickly covering a maintenance CAPEX of almost 30 Cr than controller business of almost 20 Cr and balance 100 crores for the aluminum business and this is without considering the AMW. So, AMW acquisition cost will be over and above this.
- Moderator:** Thank you. We have our next question from the line of from Chintan Patel from Satco Capital Markets. Please go ahead.
- Chintan Patel:** Sir, can you quantify the volume breakup between alloy and steel?
- Dheeraj Garg:** In terms of volumes?
- Chintan Patel:** Yes.
- Dheeraj Garg:** Naveen do you have that breakup.
- Naveen Sorot:** So, for 9 months in aluminum we have sold almost 21.36 lakhs in terms of value this is hovering around 950 odd crores. In terms of steel wheel total steel wheel business that we did was 109. In terms of volume this number is almost around 1,873.
- Chintan Patel:** Sir change in inventory is around 68 crore than number is double compared to the FY22 number, so want to understand what is happening here, is there any one time loss or onetime gains?
- Dheeraj Garg:** Can you repeat your question please we are not clear what you are asking?
- Chintan Patel:** Your change in inventory is almost double compared to the FY22 number, FY22 number is around 34 crore and this number is around 68 crore, so want to understand what happened here and is there any onetime loss or gains?
- Dheeraj Garg:** As I told you in my starting presales there has been a gain of 60 crores last year and there has been a loss of 11 crores this year inventory. So, I do not think there is any doubt in terms of understanding on the inventory losses there is nothing more to say on this. There is a gain of 60 crores and then there is a loss of 11 crores in this 18 months.
- Moderator:** Thank you. We have our next question from the line of Ravi Lodhka from Agarwal Investment. Please go ahead.
- Ravi Lodhka:** My question is at what stage we are in this Redler Technologies Israel and what are our competency for EV controller manufacturing?

- Dheeraj Garg:** So, we are in the stage of signing the definitive agreements with Redler meanwhile we have visited many, many customers who are important in this phase and we have got a very good response amazing response we have got. In fact, we had participated in the auto show with Redler and the response has been absolutely unbelievable. In terms of signing up the agreement we should have the definitive agreement signed up in the next two or three weeks and meanwhile we have already started to work on the manufacturing of the controllers and we have been able to achieve a target price on making the controller which is a very big thing for us and we have direct with our own internal competencies within the company and of course we have consultants in it and of course we have Redler. So, our software is tied up through the technology transfer and now the hardware is sorted out. So, we should be pretty much in production in the next four months. Our target is to start producing them in India in the next four months.
- Ravi Lodhka:** And sir I know that Redler is very much advance in down capabilities also, so whether you want to add any color for that?
- Dheeraj Garg:** Yes. Defense is very different animal versus the OEM auto industry India. We have the possibility of getting into down manufacturing, but we are trying to see what all competencies we bring to the business before we enter the business. I cannot enter the business just because there is a technology possible as you know it is a sensitive business and we may not have all the skillsets to get into this business, but we are still exploring as you are questioning us.
- Ravi Lodhka:** And sir one last question is there any color you want to add for the EV wheels in future as compared to your peers?
- Dheeraj Garg:** Again a very brilliant question I want the participants to understand I have talked about this earlier too, but I am very happy to tell you that we have become the only company in India to make EV wheels for two wheelers which confirm to the highest international standards and those international standards are led by marquee companies like Bosch, Sona Comstar, Nidec, these are all billion dollar plus companies multibillion dollar plus companies with very high standards and we are the only company in India which has been able to get business from these companies and start delivery of these. It was a very tedious learning process for us, but we have been able to achieve it. In fact, that gives us a lot of confidence to enter the markets for motors. We have talked about entering in the markets of motors so as to make a complete assembly of the wheel, of motor and controller. So, basically almost the entire powertrain of the vehicle. So, we are moving in that direction and we are very comfortably happy that we are much ahead in the game compared to our competition. So, yes you will see a lot of new innovations and development in this regards and this should be a big surprise to us as well as to the markets, as to the potentials that is there in this market and plus we are covered under PL. So, we will be getting close to 10% extra once we get these families organize, so we are on the job.
- Moderator:** Thank you. We have a next question from the line of Sandeep Dixit from Arjav Partners. Please go ahead.

- Sandeep Dixit:** Couple of questions number one you have been sort of hinting that the exports in the YoY decline in exports should bottom out by December, are we seeing that as we go into Jan and Feb?
- Dheeraj Garg:** Today we sent a presentation to the stock exchanges saying that in fourth quarters exports will cross 80 crores is going to be the highest numbers for the whole financial year and this obviously tells us give us strong sounding that next year is going to at least grow much better than what we are seeing in the fourth quarter and the reason for this is that our existing customers have consolidated in their ownership and luckily we have become as their preferred suppliers. So, two of the biggest customers in America have chosen us as their preferred suppliers and not only steel wheels, but we will also be supplying them aluminum wheels and now that we have capacity in the aluminum wheels I can easily get 200 crores of exports from aluminum. So, the number that I am giving you that 600 crores next year looks very achievable.
- Sandeep Dixit:** The second question I had was regarding the inventory gains and losses that you pointed out, my understanding is this is essentially a pass through of your raw material cost?
- Dheeraj Garg:** No, it is not. It is based on the consumption of the customers, not on the inventory that I carry.
- Sandeep Dixit:** I mean technically if you have an inventory gain let us say today it would revert in an EBITDA margin let us say tomorrow and that EBITDA margin would that increase in raw material cost would be passed on in the following quarter that is still continues?
- Dheeraj Garg:** All prices changed according to the change in prices, but what does not end is the amount of inventory you hold at any given time of change.
- Sandeep Dixit:** Any guidance on your top line and EBITDA margins as we go in the next few years?
- Dheeraj Garg:** So, I am very positive that given the fact that we will double our exports from here I am assuming and the fact that I will have 1.5-million more-wheel capacity not entirely for this in the financial year, but let us say half of the year I will be able to grow there plus I am seeing growth in my CV business which right now in steroids absolutely we will have the highest sales in our history this quarter on CV wheels by the way. So, we would have never sold so many wheels in a single quarter or we will also set month-on-month records in this quarter. So, CV is going to be a big gamechanger for us. So, clearly I see a top line of 5,000 crores maybe on the plus side rather than on the negative side. So, we are looking very positive, the worst is behind us and the rest will follow.
- Sandeep Dixit:** Can I just squeeze in one question on AMW what will be expected outflow CAPEX whatever on AMW and number two any visibility on when it will get concluded?
- Dheeraj Garg:** So, the matter is getting delayed because we are not getting a date in the Supreme Court, but the matter is very clear, it is as per law the judgment that we receive from NCLT. So, the CAPEX on this would additionally be close to 150 crores if I can just guess right now because 20 crores we have already paid out and the rest has to go out 120 crores odd has to go out and about 30

crores for general maintenance CAPEX in working capital etcetera. So, that is the amount of the CAPEX and not hopefully I am pretty sure that by April end April we should have the plant in our possession April, May maximum May, but I do not see that going beyond that.

Moderator: Thank you. We have the next question from the line of Chirag Shah an Individual Investor. Please go ahead.

Chirag Shah: Sir, my first question is on this revenue guidance of 5,000 crores, is it possible to indicate what kind of reuse you are looking to sell you know it could change based on the mix which happens, but in the budget of 5,000 crore numbers of wheels we are looking to sell because this top line number can change based on how raw material price behave it can be 5,500 crore or even 4,500 crore depending upon the raw material basket?

Dheeraj Garg: So, I think I am assuming that the raw material prices remain where they are right now today so that is my first assumption in this whole thing and in terms of volume growth if we are talking about a 25% growth in revenue, in terms of volume depending on the product mix the product mix will be highly skewed towards exports, highly skewed towards aluminum, highly skewed toward CV. So, even a 15% increase in volumes will do us 1,000 crore additional.

Chirag Shah: The second question what is inventory gain loss now just wanted to understand how does this accrued in our P&L and also if you can give me a breakup of quarterly of this 11 crores because if my understanding is correct that you buy inventory suppose this steel and if the price is favorable when it comes as gain for you in your P&L because your billing we measure as is based on index, but probably you are able to secure at a price better?

Dheeraj Garg: So, you are right that thought is correct that is how it works.

Chirag Shah: But sir it is a normal business you are looking as gain or loss?

Dheeraj Garg: When you know the prices are going to go up you can build up your inventory. If you know the prices are going to come down it can draw down your inventory because the actual change in prices so that is a strategic play that the management has at its discretions to deploy.

Chirag Shah: I agree with your answer it is a normal business gain or loss it is not a one off in that sense, it is a nature of the business model you will purchase this strategy on an ongoing basis?

Dheeraj Garg: Absolutely well said.

Chirag Shah: Sir then in that case for consistency perspective if you could indicate on a quarterly basis how this number?

Dheeraj Garg: That is what I have done this morning I have sent out a note to the BSC please have a look at that and it clearly shows you and in fact in the beginning of my speech I clearly said that our EBITDA on a 9-month basis has grown by 21% if you take out the inventory gain or losses. So,

clearly that is our endeavor to inform the market or the participant what is the EBITDA based on actual performance of the company versus taking in two factor that changes in price of raw material.

Chirag Shah: And second question was in aluminum casting business so this is a new line you are trying to develop?

Dheeraj Garg: Correct this is a new line, it is an imports substitute and we have sorted out the technology, we have got a great traction with the OEMs and we are doing it at the behest of OEMs so it is a backed-up business, it is not a business that you will have to get orders from. We have business visibilities for us as we invest in this business and we will look at this business to exports. It is going to be just like a wheels business that gets exported as well as used locally.

Chirag Shah: Sir, is it in CVs or even if you can educate?

Dheeraj Garg: It is in a car business in the passenger car business.

Chirag Shah: And when can we see way of light in the sense in terms of proof of concept and actual production happening, how much time do we look at?

Dheeraj Garg: We are going to start with small supplies by the end of June quarter, but then those will be just samples for validation and the actual mass production will start next year and these are for electric vehicles. Let me point out to you that this is a product that will be highly used in the electrical vehicles space. So, you can clearly see this is a technological move that we are making in line with what is happening in our industry.

Chirag Shah: Sir and last question if I can just take one more on the new aluminum orders or the export orders that you have indicated, is it possible what wheel size is it going to same 16, 18 inches or we are moving up the curve in terms of inch size?

Dheeraj Garg: We are definitely going up the curve in fact our new expansion entails our capacity up to 27 inches which is the first in India. There is no plant that can go up to 27 inches. So, we will cover the entire gamut of the cast wheel industry.

Chirag Shah: In terms of order flow so their incremental 1,000 crore of revenue orders or in general is it possible to indicate that what is the current export inch size that you have and how should we look at this?

Dheeraj Garg: I do not want to share with this is a competitive information on sizes etcetera, but I just gave you a general outlook that we are going to be the biggest width supplier of wheels in India.

Chirag Shah: And lastly if this commodity volatility is not as high as it was what we have seen inventory gain loss will not be that significant for you to highlight, is that right?

- Dheeraj Garg:** Again, a brilliant assertion I think that is a very well said point.
- Moderator:** Thank you. We have a next question from the line Imran Khan from Longbow India. Please go ahead.
- Imran Khan:** Sir my question is on your you share a release every month where you mentioned your net sales and gross sales and if I add the last three months numbers it was about 1,000 crores plus and the reported net sales for the last three months?
- Dheeraj Garg:** I get your point so what happens is that when the raw material reductions takes place they happen with a lag. So, let us say the raw material reduction took place on the first of October, but by the time it is aggrieved by the OEM and then the purchase orders are changed and when we get new purchase orders there is a lag of three to four months sometimes five months. So, by the time the results were published we had to reduce the sales to account for the fall in prices during this period that is the only difference you see.
- Imran Khan:** But this difference is more than 11 crore I mean you said you had inventory loss of only 11 crores?
- Dheeraj Garg:** We are not talking about loss last year we are talking about something else; we are talking about sales here. So, when sales happens it happens at the original price that was settled before the price increase happens. So, if the price increase happens on the first of October my sales will continue at the prices of September which were higher than October. The settlement of October prices takes three to four sometimes five months. So, when as and when they happen we put a debit note the customer puts a debit note on us and we have to reduce the sales value by that amount. So, do not confuse it with inventory gains and losses please.
- Imran Khan:** So, is it fair to assume that it is a loss it is 70 crore loss?
- Dheeraj Garg:** I think you do not understand what I am trying to say how can there be a loss. There is a decline in sale value, but it does not mean that the decline in sale value is going out of my P&L accounts because at the same time I am paying less to my supplier of steel, you have to understand.
- Imran Khan:** Sir one more thing if you can do Q1 you have shared volume and value for different segments Q2 you did not do it I do not know whether you have done it offline with somebody, but Q3 again you have not shared it, it would be good if you share it on a regular basis meaning the presentation?
- Dheeraj Garg:** We will take that point I am not sure what breaks your point what you are saying is correct we will correct that now going forward.
- Imran Khan:** Maybe this time we are not sharing right now, but maybe next-to-next quarter you will share it for the last two, three quarters right?

- Amit Hiranandani:** What we are doing is we are not making these volumes and segment wise bifurcation as a part of our conference call, but yes this can be obtained on a one-on-one basis.
- Imran Khan:** Sir, but that would be not fair to the other investors this is my point because even last quarter somebody asked me for this information and you said we will give you offline I think if you do not put any side bars it could be very helpful for the other investors as well?
- Dheeraj Garg:** Okay we will come back to you I am not aware of this issue what they have tried to do, but your point is taken Amit we will come back with a proper response to it.
- Moderator:** Thank you. We have our next question from the line of Keshav Garg from Counter-Cyclical PMS. Please go ahead.
- Keshav Garg:** Sir I am new to the company so I am trying to understand sir that what is our pricing formula with our customer, is it a formula-based pricing wherein every quarters acts as a input prices and power and for it, are these things pass through or is it a fixed price contract annually or is it a annual size?
- Dheeraj Garg:** It is a fixed price contract and only the raw material price changes, changes the price of the product plus we also acts not every quarter, but once in a year we do get some inputs price increases and they effect with a lag, their discussions happened let us say 6 months. So, we get it retrospectively. So, if we get an input increase we will get it retrospectively or a period mutually decided by the OEM and us. So, only the change in prices, majority of the change happens only because of the change in raw material prices.
- Keshav Garg:** Sir and also is there a annual price reduction contract that in lieu of additional volume?
- Dheeraj Garg:** That is a good point some OEMs insist for it, some OEMs we do not give because it gets offset against the input cost that we have to bear. So, it is not a hard and fast rule that every OEMs gets a annual cost down, but yes some OEMs do get a annual cost down.
- Keshav Garg:** And sir also in terms of our business how does it compare with wheels India and also Anrky Wheels I mean I am trying to understand that is it totally comparable or our growth companies sir I am trying to understand how much is the overlap I mean are we making the exact same product or is there some other product that they are making and it is not strictly comparable?
- Dheeraj Garg:** I think Amit you can answer this question because you analyze our company and the other companies also I am not sure to what extent this question needs to be answered, just understand what he is trying to ask I am not able to follow.
- Keshav Garg:** Sir I am trying to understand that between our business Wheels India and Anrky Wheels sir is it the exact same business or how much is the overlap or are they making some other products that is different from us?

- Dheeraj Garg:** I think SSWL is into steels wheels as well as alloy wheels, but wheels India is something is into steels wheels only. So, that is why there is a major difference into this. We can definitely take this offline.
- Moderator:** Thank you. We have a next question from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.
- Pulkit Singhal:** This is now the second consecutive year of 20% plus return on capital I am just trying to understand as you grow more in exports and alloys next year, is it fair to say that your return on capital will go higher from this because those are higher ROC business?
- Dheeraj Garg:** Absolutely without a doubt, without a question you will see higher utilization of our CV business, higher utilization of our aluminum wheel business even though there is a CAPEX happening there, higher utilization of all our lines our new entry into electrical vehicles, scooters that is the big chunk, very fast growing chunk, we are the pioneers in that business and yes when I say that we will increase our volumes by 15%, majority of the volume gains are going to come from high value added business like exports, CV and aluminum. So, that is clearly answered your question in itself that ROC is bound to increase from this additional margin sales.
- Pulkit Singhal:** new initiative consolers and casting The return on capital on those business are they higher than your current ambit as well ?
- Dheeraj Garg:** Obviously aluminum business, CV business export, this is a high EBITDA margin businesses.
- Pulkit Singhal:** I am asking about the new initiatives the consolers that you are getting into manufacturing and the aluminum casting?
- Dheeraj Garg:** Again, is a very profitable business because it is a lot of technology involved in it. So, it is not a formula-based costing that one does with the OEMs on our wheels business for instance, but this is a proprietary technology, proprietary software and the features that we bring into this product nobody has, nobody has what we have in this business and clearly we have got the wheel part of it, the motor part it has been sort out and the controller. All these three things come imagine getting bundled in one unit of sale and the amount of pricing power that you will have is going to be unbelievable and the value addition for the customer to because he gets all three things in one go without having to assemble them.
- Pulkit Singhal:** Secondly, on the alloy exports obviously this is a much larger opportunity than even the domestic alloy business and while the aftermarket you had tried your dressing I think the OEM alloy exports seems to be that critical juncture where a things can kind of pick up, so in that journey can you help us understand and what really drove them to give you, you mentioned two large customers what was there underlying thought process of getting onboard as an alloy partner?
- Dheeraj Garg:** So, it is again a very good question because until now they were hesitant to bring in a supplier from outside Europe because they wanted to support the European suppliers, but what has

happened is that there were two plants in Morocco that were dumping wheels into Europe because Morocco being right across sea to Spain and very close to the European union, they were coming for duty free under their seated agreements. Now those two plants have been damped with anti-dumping duties and so the buyers now in the OEMs where we already have relationships are looking for the alternate suppliers and that is the results while we are getting very good traction from the OEMs and we are talking about the top OEMs of Europe not Tier 3 or Tier 4 top OEMs with huge volumes, with huge monies to invest in aluminum wheels. So, I have talked about my journey to 10 million wheels and this is the biggest cog in that journey. So, this has to happen and it will happen and we see very good traction in this going forward. So, the journey is not limited to 4.5 million wheels, 4.5 million wheels will happen in this financial year in the coming financial year rather, but 10 million is not going to be far away once we get success in the OEM market because the volumes are going to be in couple of millions easily.

- Pulkit Singhal:** How much land you have I mean if you were to expand in the existing land?
- Dheeraj Garg:** We do not have issues have land absolutely not.
- Pulkit Singhal:** So, there is no challenge on the land so you can easily go to 6 million, 7 million business machinery addition basically?
- Dheeraj Garg:** We have land in Chennai, which is lying vacant very close to Hyundai, we have land in Gujarat which is half of the land which is not utilized. So, you do not worry about that aspect at all.
- Pulkit Singhal:** So, therefore, I mean when you are talking about 25% revenue growth in obviously it will be higher because I presume aluminum obviously higher margins, so I mean are we almost guiding through 40% kind of PAT growth, 35%, 40% because of the leverage you have?
- Dheeraj Garg:** To be frank I do not count my money I just check what I am going to do next here and what I see from what we are going to do, we are going to be plus 12% on EBITDA margins going forward and on a conservative estimate I do not want to sort of give a number of 15% or 14% and then not come up to that level. So, I am giving a very conservative number assuming that cost of input do not go up next year because you already have received input cost increases this year and it will be fair to say that we will have a solid EBITDA numbers. So, you can multiply by 1,000 by 12% it clearly shows you that number that you are looking to augment.
- Pulkit Singhal:** And lastly just a tax rate I mean while you understand cash outflow is lesser, but from a EPS growth perspective?
- Dheeraj Garg:** We had a 25% tax rate.
- Pulkit Singhal:** In FY24 or FY25?
- Dheeraj Garg:** FY24-25.

- Moderator:** Thank you. We have a next question from the line of Chirag Shah an Individual Investor. Please go ahead.
- Chirag Shah:** Sir three more questions one is it possible to indicate for FY21-22 and 9 months our volumes steels wheels and alloy wheels that will also be sufficient, is it possible to indicate now?
- Dheeraj Garg:** We have to strategically see how does it. So, I do not know if somebody mentions that we will disclose it for one quarter I am kind of surprised but let me have a discussion internally and then we will communicate it. If we do it will be for everybody it would not be for only one.
- Chirag Shah:** What I am just trying to understand we do not want a breakup between commercials?
- Dheeraj Garg:** I do not want to reveal my break up in fact detail to my competition.
- Chirag Shah:** Only steel and alloy if you can just indicate that breakup?
- Dheeraj Garg:** That I think we should do I think Amit we will make a disclosure I guess to the stock exchanges on this.
- Chirag Shah:** So, that is one sir second question was coming back to this Europe business that you indicated, so where are we in that stage?
- Dheeraj Garg:** I have already given an answer to this question that we are in the midst of talking to the OEMs. Yes, we are not able to do more because we did not have capacity now we have capacity so this business will expand.
- Chirag Shah:** So, it is more of a FY25 story onwards where real export volumes will start kicking in?
- Dheeraj Garg:** FY24-25 we should be looking at 1,000 crore plus by then yes you are right, but this year we will be looking at this financial year we will be looking at close to 600 crores.
- Chirag Shah:** I was more referring to the two-three EU customers that you indicated shift from Morocco that is happening?
- Dheeraj Garg:** It takes time, but in this business we are working with existing businesses, so no new program existing programs. So, I cannot reveal too much, but it will be pretty brisk to begin with and then when the critical mass needs to build up then obviously you are right it will take more than a year to sort of reach the critical mass to 2 to 3 million deals that may take longer than one year let us say, but it will start next year you will start seeing real fireworks next year in 24-25 I mean.
- Chirag Shah:** Second on the PLI benefits so if you can indicate by when you have expected because there would be lot of requirement of tick mark that you have to produce?
- Dheeraj Garg:** Of course, we have to produce and we are already qualified for it, we just have to start producing and making that investment which are in the midst of.

- Chirag Shah:** So, by when do you expect that you would be able to so again FY25 onwards benefits?
- Dheeraj Garg:** You can take 24-25 yes.
- Chirag Shah:** And what is the hesitancy of not making an investment now and is there anything, any approvals are pending to come across?
- Dheeraj Garg:** There is no approval pending we have to do the investments the other side we are working with controllers now, we will start working with the motors so we have to have a certain critical investment in this and basis that we qualify automatically for PLI there is no approvals to be had.
- Chirag Shah:** So, all that is sorted out?
- Dheeraj Garg:** And now we have to do the homework, the government has given us the clearance.
- Chirag Shah:** And this would also include EV wheels or it is only for motor controllers the wheels for the EV that you have indicated over there also PLI benefit comes up?
- Dheeraj Garg:** I am talking about controller and motor specifically.
- Moderator:** Thank you. We have a next question from the line of Rajat Setiya from iThought PMS. Please go ahead.
- Rajat Setiya:** Sir, with regards to the raw material pricing volatility we face in our business I think you mentioned that everything is settled retrospectively is that correct and the steel wheels or alloy wheels?
- Dheeraj Garg:** Yes correct.
- Rajat Setiya:** So, the inventory gains and losses that we see they are just notional accounting gains or losses?
- Dheeraj Garg:** They are actually cash flows.
- Rajat Setiya:** But if everything is settled retrospectively then why are they happened?
- Dheeraj Garg:** You know it depends as I said before and please hear clearly now again I am repeating myself the pass through happens on the change in price of raw materials and that is retrospective, but how much raw material are in hold is my discretions. So, when the pass through happens it happens for the consumption of that particular steel wheels, but if I am more steel of the same steel wheels I can continue to use that old price steel to make that steel wheels. I do not need to buy expensive steel which has happened in the meantime, but that is how the inventory gains are calculated or actually flow into the system.

- Moderator:** Thank you. We have our next question from the line of Shivam an Individual Investor. Please go ahead.
- Shivam:** I am a bit new to the company so I was just looking at your last decade ROC numbers like it was within the range of 6% to 12% and of FY22 it has been around 23%, so can you highlight some changes that you have brought that there is a significant jump in ROC and why was the ROC so subdued like in the last decade like I am a bit new to the company?
- Dheeraj Garg:** I think Amit you can sort of fill him on this, but more or less I can say this that our utilizations in 2018 were hampered by that NBFC crisis and then after that the COVID hit and post COVID we have seen a full utilization of our resources and hence you see a improved return on capital that is in summary to answer.
- Shivam:** But sir before 2018 also it will be around 6% to 12% only?
- Dheeraj Garg:** Before 2018 we did a lot of CAPEX and that CAPEX culminated in 2018 and we started to boom in from July, August, September second quarter of 18-19 was very good for us, but then unfortunately we had this problem. So, if you look at the first two quarters of 18-19 we did a pretty good ROC in that I do not remember the exact numbers, but it is pretty close to 16%, 17% and it was starting to look up, but then we have a two-year slowdown after the NBFC crisis in India.
- Shivam:** So, the main reason was from 2011 to 2018 the CAPEX incurring?
- Dheeraj Garg:** So, lot of CAPEX we set up many plants because we had to be near the OEMs and we had to grab market share and we are very happy we did that, that is why we are number two in the world today.
- Shivam:** So, now any guidance like what would be the ROC?
- Dheeraj Garg:** Guidance is going to be 25% and our internal target is to take it to 30%, but this year we should be looking at this coming financial year nothing less than 25%, 26%.
- Shivam:** That is also improvement from a 23% of FY22?
- Dheeraj Garg:** That is absolutely my friends.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, Sir.
- Dheeraj Garg:** Thank you everybody who had participated in this conference today and I am happy to answer some of the questions which is very intelligent and sort of thought provoking and I look forward to such a conversation next time around also and my only request would be that people should

not ask the same question repeatedly like I heard this question on inventory. If there is some doubt I am very happy to answer Amit; Amit understands our business well. Amit please whoever does not understand the inventory gains issue kindly sort of speak to them one-on-one and clarify to them otherwise it is my pleasure to have this conversation with you and I look forward to having another one after the next quarter will run. Thank you.

Moderator:

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