Management Discussion

Raunak Mehta - Analyst, ICICI Securities
Thank you. Good afternoon everyone. On behalf of ICICI Securities, we would like to welcome you all to Wheels India's Q2 FY27 earnings conference call. Today we have with us from the management team Mr. Srivatsaram, Chairman and Managing Director, and Mr. P. Ramesh, Chief Financial Officer. As always, we'll start the call with a brief opening remarks from the management team. And then we'll proceed with the Q&A session. Thank you, and over to you,

P. Ramesh - Chief Financial Officer, Wheels India
Sir. Good afternoon, everyone.

Srivatsaram - Chairman and Managing Director, Wheels India
I'm Steve Aslam. I'm the General Managing Director of Wheels India. Uh, this is a Q2 earnings call, and I'm happy to say that Wheels India in the second quarter showed a 36% revenue increase from Rs 1,179 crores to Rs 1,598 crores, and the net profit increased from Rs 37.8 crores to Rs 53.5 crores. GCFO growth on a standalone basis. Uh, in that, really, we look at it- the quarters of major growth coming from earth mover wheels, which are largely exported, uh, air suspension business, which is really domestic, and of course the domestic auto industry, which was- which did very well in the 2nd quarter.

Uh, broadly speaking, looking forward You know, while demand for most segments remains strong, there's some concern about inflation. And you know, also the second half, from the third quarter onwards, you will start seeing some growth slowing down because of the higher base effect of GST 2.0, which happened actually in the H2 of last year. But we are still seeing strong demand and We also need to tell you that, you know, during this quarter we also raised, you know, funds of Rs 430 crores. Rs 180 crores from preferential issue and Rs 250 crores from QIP to reduce the debt.

And we also did raise the money and reduce the debt by the end of September. Demand seems strong and prospects, immediate prospects seem quite bright. With that, I would probably take you to our presentation. Ramesh, we can just go through the Q2 numbers. You want to move to the Q2 numbers and then reiteration of the strategy? Sure, sir. Sure, sir. Yeah, so if you look at the half percent, 26% growth in revenues and 66% growth in profit. While we did debt reduction, we did it in the second last day of the quarter, so as a result of which none of that cost advantage has actually come through.

But very strong demand across segments, and we ended up with EBITDA of 8% and a PBT of 4%. Next slide. On a consolidated basis, again, if you look at it, uh, you know, the revenue growth was even higher. On a quarterly basis, it was 36% growth. PAT growth was 90%. EBITDA was 8.36% with a PBT of 4.6%. And on, on the half-year basis, again 26%. And yeah, these numbers cover the concern for the H1. Next slide. Segmental reporting. Auto is very strong, you know, really. In auto, let me say that we include car, truck, tractor, earth-moving wheels.

Air suspension system is auto. So there is a very strong growth of almost 40% year on year. As I mentioned, as I also need to tell you, the largest part of the growth came from, you know, auto and wheels and air suspension, but also the regular wheel segment also contributed. Industrial segment had more muted growth. Here we have some subsegments like fabrication for construction which was very slow because the construction network and manufacturing in the country was relatively slower. Also, the windmill sector is slightly slower.

It's more seasonality. It will pick up immediately for the 3rd quarter. So these are the 2 things. And the other part I need to mention is that the sector is- the industrial component sector for us is relatively more skill-based. So because we're expecting higher volumes in the 3rd quarter, we need to hire people in advance, and that's another reason why the EBIT is also relatively lower despite some growth, because we have to recruit people for RAPOR. Next slide. So this gives you a sense also of the EBIT on a half-yearly basis.

CapEx-wise, we are looking at Rs 400 to Rs 450 crores. In terms of CapEx, CapEx is both in the registered steel wheel business of truck and tractor, and also in terms of cast aluminum wheels where we are doing a fairly steep ramp-up, and largely the windmills- also the windmill sector, which is also seeing some investment. Go to the strategy slide briefly. So metrics- I'll just go to the metrics. I'm sorry, go to the previous labels. So as you can see, you know, our key ratios are coming down, um, and debt-to-EBITDA is coming to reasonable levels.

Debt-equity also is locked with the capital infusion. Next slide. Next. As well as, you know, ROCE and return on net worth are reasonably decent. Next. So just to take you through the strategy for growth for the company, we are the globally leaders in both wheels for construction equipment and agriculture tractors. We continue to focus on growing these segments both in India and overseas. Second segment we're strong in is the The fabrication and machining of large castings for windmill. Fabrication segment, we continue to make investments.

We are a large supplier to the windmill sector globally, the non-Chinese windmill sector, and machining business is also continuing to grow. The hydraulics link-up business, we believe, has a lot of promise. It's a fairly low base that we have right now, so the opportunity to ramp up is significant, and we believe this could grow faster than the traditional business. Cast aluminum wheels, as I mentioned earlier, will continue to see investment from us as we see, you know, increased conversion happening towards aluminum wheels.

Air suspension business has seen significant growth, and we continue to invest to ensure that we meet our customer requirements. Lastly, the company looks at working capital optimization and managing through free cash flows, and predominantly we would look at funding CapEx through accruals and trying to, you know, keep the debt under control. There's also a lot of effort on cost optimization. We have internal meetings every 2 weeks to drive that. So with all this, we believe that we can continue our growth trajectory, and currently we to maintain the kinds of ROE and ROCE numbers that you see in front of you.

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

Questions & Answers

Operator
Thank you very much. We will now begin the question and answer session. To ask a question, please click on the raise hand icon tab available on your toolbar or on the Q&A tab available on your screen. Kindly turn on your microphone when the operator announces your name. You may also post text questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take our first question from Rajesh Kothari from Alpha Accurate Advisors. Please go ahead. Thank

Rajesh Kothari - Analyst, Alpha Accurate Advisors
You, ma'am. Thanks for this opportunity. Good afternoon, sir, and congrats for, you know, improvement in your profitability. Hope to see that. Uh, when you look at, you know, from the next 2 years perspective, just wanted to, you know, the brief guideline from your side. How do you look at the one in the, you know, both the business revenue growth and very importantly, you know, how do you see the margins trajectory, uh, from current year, you know, to improve to that target double-digit margins?

What are the various steps which are required And where are we in that cycle?

Srivatsaram - Chairman and Managing Director, Wheels India
Thank you, sir. Yeah, thank you, Rajesh. As, as you're aware, you are right, we are looking at double-digit EBITDA margins. We are around 8% at the moment. And really, the way that we look at it is that we have certain businesses which are now operating at subscale, or where the capacity utilization is relatively low. And for us, you know, if I can name the businesses, cast aluminum wheels, hydraulic cylinders. Also, if I look at it, you know, some of the tractor businesses, we have also relatively underutilized capacity.

Air suspension also is something where we are looking at adding. So essentially, when you take you know, subscale businesses and scale them up, you see a EBITDA positive, PBT positive. So the switch around becomes much faster. And our strategy is, as I mentioned earlier, is also basically to grow these 5 different business areas, and everything else depends on the market. So when you talk about growth and growth of the market going forward, There is inherent market growth which is honestly not within our control.

All we can do is to look at servicing the customers when they have the demand growth. I don't have a visibility on how the Indian auto market is going to grow, honestly, even beyond the 3rd quarter. 3rd quarter visibility, beyond that I'm not sure how it's going to grow, but however, how much ever it grows, we will grow along with it. The question is really how do we grow faster than the market, and that's why we have this strategy. In this strategy, we have detailed plans of how we can ramp it up, and we believe that we just focus on this strategy for the next, you know, at least 3 years, you will see substantial improvement in both the margin profile, as you mentioned, as well as in terms of the top line.

I hope I have answered the questions to the best

Operator
Of my ability. Rajesh, are you through with your question?

Rajesh Kothari - Analyst, Alpha Accurate Advisors
No, I was- so, so thanks for that, you know, answer of one part of question, but one part is still unanswered in terms of when you look at the growth, uh, you know, one is of course the market link growth, but the higher content per vehicle, the export growth opportunities, particularly on the industrial side of the business, the wind turbine side of the business. And also, you know, the alloy wheels, if I look at the most of the competitors, they are also reporting exceptionally, you know, strong numbers.

So keeping that in mind, you know, what kind of growth you think would be reasonable to assume, uh, you know, over next, you know, 1 to 2

Srivatsaram - Chairman and Managing Director, Wheels India
Years? So, uh, let me, let me go, you know, category-wise. Yes, uh, the construction, the industrial size wheel demand, we will continue to grow. It will probably grow over a 2-year period, but we are growing even now. We are growing quite fast and we'll continue to grow that. The windmill business also, we are winning new orders, but again, it's an export-oriented business. So for the next 1 to 2 years, it will grow. Aluminum wheel business, you are right, it is growing fast. And to give you an idea that, you know, whatever we did in the second quarter, we will definitely look doubling that probably by the 4th quarter.

So we are seeing also a fairly steep ramp-up, but for us it's happening more in the 4th quarter as opposed to immediately. I mean, immediately there's some buildup, but major volumes will come in at that period of time, and we see this also going forward. As a matter of fact, that business, while we already have CapEx which is approved, we've even gone ahead with the next phase of CapEx. So we are extremely bullish there. Other business which has grown substantially and, and grown ahead of capacity is air suspension business, where we are seeing, you know, volume growth at 50% over the previous year, and we see this continuing.

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

Rajesh Kothari - Analyst, Alpha Accurate Advisors
Sure, sure. Great, sir.

Operator
Thank you so much. Thank you. Next question is from Ronak Mehta from ICICI Securities. Please go ahead.

Raunak Mehta - Analyst, ICICI Securities
Yeah, thank you for this opportunity. Uh, so I have 2 questions. Uh, one is on the, uh, price pass-through side. So, uh, I believe the last, last time you mentioned about, uh, your negotiation with the customers for inflationary cost pass-through. So where are we in that journey, and, uh, by when can we expect, uh, those inflationary, uh, costs to reflect, uh, in the numbers? That is first question.

Srivatsaram - Chairman and Managing Director, Wheels India
Okay, so, uh, you know, raw material costs happen almost immediately, worst case a quarter away from the actual escalation. So there is a pass-through, there's an agreement with the customer. That pass-through on RM happens automatically. This year, of course, with the West Asia crisis, you know, fuel costs have also increased substantially and claims have been made with customers. Some customers have settled, some are in the process of settling. So that will probably- that exercise is already, you know, well underway.

So we expect to, to get closure on that probably by the 3rd quarter. So we don't see any, any major impacted. So it's not really impacted our results in terms of profitability in Q2 and will not in Q3 either.

Raunak Mehta - Analyst, ICICI Securities
So is it fair to assume that third quarter- from third quarter, uh, the margin- so the overall margins

can improve because of those pass-throughs, uh, which are not there in the current margin?

Srivatsaram - Chairman and Managing Director, Wheels India
Uh, yeah, yes and no, because it also depends on which segment grows as relative profitability different across segments. But yeah, broadly speaking, broadly speaking, what you say is right.

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

Srivatsaram - Chairman and Managing Director, Wheels India
Yeah, so to give you an idea, you know, we have 2 things. Earlier I'd also mentioned that, you know, around 40,000 a month level is our breakeven level. We are already at that level, even this month we are, we are kind of at that level. But the only other issues, we're also sitting on some older stock of material. Which during the West Asia crisis they couldn't ship. So that's just landed at our- at this thing, at our locations. So we believe that probably post-November onwards we should be coming- from December onwards we should be PBT positive, leave alone EBITDA.

EBITDA positive, we are already there. We are really talking about PBT positive in that business, which should happen from December

Raunak Mehta - Analyst, ICICI Securities
Onwards. Perfect. Thank you. Thank you, sir. Okay, that's all from my side.

Operator
Thank you. Next question is from Pranjal Soni, an individual investor. Please go ahead.

Pranjal Soni - Individual Investor
Hello, am I audible?

Srivatsaram - Chairman and Managing Director, Wheels India
Yes,

Operator
Please go

Srivatsaram - Chairman and Managing Director, Wheels India
Ahead.

Pranjal Soni - Individual Investor
Yeah, so my question is related to the alloy wheel business. So I just wanted to understand, uh, what CapEx is required to add 1 lakh wheels of alloy capacity, and also what asset tonne-hour can we expect from this business at optimal utilization?

Srivatsaram - Chairman and Managing Director, Wheels India
So basically, you know, if you look at it now, we are adding- we have a capacity currently at 80,000 a month. We are adding capacity up to 130,000 a month by end of March. Uh, Ramesh, what is the CapEx for '80 to '130, which is the previous- the July board meeting number? You have that

number? So it's about, uh, Rs 200 crores. Yeah, so roughly Rs 200 crores. So Rs 200 crores is is what we feel is required for about 1 lakh. So this is basically 80 to 130, no? The 80 to 130 is 2 lakh, but I'm talking about including the 170,000, Ramesh?

Including 170,000. Yeah, so basically for adding, just to answer your question, for adding about 90,000 wheels a month. We need- and 90,000 wheels is more than a million, so we need about 200 crores, assuming that it's not a greenfield site. It is talking about adding an existing site. That's probably the equation.

Pranjal Soni - Individual Investor
Uh, okay, understood.

Srivatsaram - Chairman and Managing Director, Wheels India
And in terms of asset turnover, you would ask the question- the asset turnover, just take Rs 5,000 a wheel. So 90,000 into

Pranjal Soni - Individual Investor
5,000. Okay, uh, so my next question- okay, understood. Uh, so my next question is related to the technical agreement with Toppy. So is it a royalty-based arrangement linked to sales, or it's a one-time technology transfer fee?

Srivatsaram - Chairman and Managing Director, Wheels India
It's a- I understand it's a royalty-based agreement, uh, based on, on what they're doing. Uh, Ramesh, you can correct me if I'm wrong. Is It's a royalty-based agreement based on improvements they are suggesting. So we have, we have, you know, monthly review meetings and all that. So all that is

Pranjal Soni - Individual Investor
Moving forward. Okay. And my last question is, can you show, can you show some light on the industrial business? Because actually industrial business is currently your lowest margin segment, which is around 3%. I just wanted to understand So if we are doing, uh, out of Rs 450-500 crore of CapEx for FY27, 50% of the CapEx we are doing for the industrial business, which I believe, uh, if I take Rs 200 crore for the alloy wheels, rest is for the industrial business. So I just wanted to understand the rationale.

What growth and margin trajectory do you see in the industrial business if you compare it with the alloy business?

Srivatsaram - Chairman and Managing Director, Wheels India
Yeah, Pranjal, first of all, that assumption is incorrect. Ramesh, if you look at industrial sectors as defined, which is the windmill hydraulics and windmill hydraulics and fabrication business, what is the CapEx that we plan out of the $400 million for that? Um, it would be 100 crores, something like that. Yes, sir, close to 100 crores. So, so first of all, uh, Pranjal, just to correct you, out of the 400-450 crores, we have about 100 crores which is for industrial business. And on industrial business and why it's not profitable, that question was asked.

So industrial business, if I look at it, I break it up into 3 segments. So the first segment is actually the windmill business, which is profitable even today. It's, uh, it's a double-digit EBITDA margin. We don't have any issues. The second business that we have is the hydraulic cylinder business, which is right now a low single-digit business, but that scaling up will happen from the 4th quarter. We're

just doing some layout changes, so from January onwards we'll be in a position, A, to increase our output, and B, we also believe that we will start supplies to some of the international partners that we've signed on So that business will definitely, you know, grow and become more profitable.

The 3rd business, which is related to the industrial segment, is the fabrication for construction industry. Construction industry in India has been on a low, low ebb, and also typically construction doesn't happen during the monsoon season. Now monsoon season is over, so the customers are coming back with new models, and we are seeing an increase in that business. So that should become profitable in the 3rd and 4th quarter. So with that, you will start to see industrial segment also showing improvement in

Pranjal Soni - Individual Investor
Profits. So what margins do you expect from this industrial business, uh, going forward after 3-4 quarters?

Srivatsaram - Chairman and Managing Director, Wheels India
Yeah, I would expect it to be at double-digit margins.

Pranjal Soni - Individual Investor
Okay, understood. And, uh, where is the rest of the CapEx being taken? Like if we see from 450 crore, 100 is for the industrial business, uh, 200 is for the alloy wheel. So remaining balance is

Srivatsaram - Chairman and Managing Director, Wheels India
A conventional business of wheels for steel wheels for cars, trucks, tractors, construction equipment, and a little bit for air suspension. That's where the capex has gone. So it's all cut, the existing business, existing business ramp up. And you ask me which segments, it is for car, it is for truck, it is for tractor, it is for construction equipment, and it is for SSB, for all of them. So about 100 to 150 crores is going into traditional conventional business.

Pranjal Soni - Individual Investor
Okay, and just one more question. Could you share your current market share in India in alloy wheels and in steel wheels? Like how you see it moving over the next two to three years.

Srivatsaram - Chairman and Managing Director, Wheels India
Yes, steel wheels. Ramesh or Mukunda, can you can you talk about steel wheel market share? Sir,

P. Ramesh - Chief Financial Officer, Wheels India
Our SOP

Srivatsaram - Chairman and Managing Director, Wheels India
Is close to fifty percent

P. Ramesh - Chief Financial Officer, Wheels India
On

Srivatsaram - Chairman and Managing Director, Wheels India
The steel wheels. If you look, CD and tractor together. I think simply means passenger car. For passenger car, it would be about 35% on the steel wheels. Now the 35% takes into account the fact that 40% of the market is aluminum. So including that 40%, the 35% market share on steel wheels, steel wheel passenger car. If you look at aluminum wheels, we are a late entrant, so we are a

negligible player at the moment, but we do believe that we can get to about 10%, 10 to 15% market share. [Foreign Speech] card clevers which are probably in the low single digits and we believe that we can get to this level by the same time next year based on businesses that we

Operator
Have okay sir that answers my question yeah next question is from Sahil Jain from Ashwi India Holdings

Srivatsaram - Chairman and Managing Director, Wheels India
Yes, please go ahead,

Sahil Jain - Analyst, Ashwi India Holdings
Sir. Yes, hi, uh, thank you for the opportunity. Just wanted to ask, uh, considering that half- like, I think if I'm thinking correct, majority of business is a conversion sort of a business that we have except for the products that we are selling. So is there some sort of an EBITDA per ton metric that you are tracking? You could provide us with that, sir, or is my understanding not right?

Srivatsaram - Chairman and Managing Director, Wheels India
No, our business is very varied because it includes different products, different sectors. We take the products that we make, the variety is huge. So tracking it on a, you know, per metric ton basis doesn't make sense. So that basically answers it. We don't, we don't track that. Uh, what is, what is the first half of your question? I'm sorry,

Sahil Jain - Analyst, Ashwi India Holdings
No, I thought that majority of the business might be conversion business, right, sir? Like creating aluminum? No, no, no,

Srivatsaram - Chairman and Managing Director, Wheels India
No, no, no, no, we buy, we buy steel, we buy aluminum, and we convert it. The only business of ours which is a conversion business in that sense is where we do machining of windmill hubs. That's something like a 10 crore a month type of business at the

Sahil Jain - Analyst, Ashwi India Holdings
Moment. Understood, sir. And, uh, is my thinking correct, sir? Like you mentioned, you sell one aluminum wheel for Rs 5,000 on average, like you mentioned earlier. So considering even if you do 100,000 wheels a month which is close to like 1.2 million wheels a year which is at 600 crore rupees if I am thinking correct then I guess sir how much so [Foreign Speech] so with the you know this company being EBITDA break even right now maybe PBT break even so what is the optimal amount

Srivatsaram - Chairman and Managing Director, Wheels India
[Foreign Speech] post reaching that's when it reaches that scale it should be at that

Sahil Jain - Analyst, Ashwi India Holdings
Level is what you understood sir so it's like 130 a month but I am just considering 100,000 so with that and this being like a 10 percent of I mean revenue share and I guess by that time it

Srivatsaram - Chairman and Managing Director, Wheels India
I imagine that, you know, it becomes a Rs 600 crore business. It also depends what- how the rest of the business grows. So this business will become double-digit EBITDA, as you say, at that point of

time, which is probably in our mind sometime in the first quarter of next year. We'll be at this, this Rs 100,000 crore level, and we should, we should definitely be looking at numbers closer to that. What it is as a percentage of the rest of the business is relative, but let me also tell you that the largest growth opportunity that we see from now to Q1 of next year is possibly this area.

So it will be a big share of the growth that we see.

Sahil Jain - Analyst, Ashwi India Holdings
So the margin-accretive business that I'm thinking right now is alloy wheels and is the machining business. Is the hydraulic business, the air suspension business. So all of these- and

Srivatsaram - Chairman and Managing Director, Wheels India
The construction, construction crane business, which is a global

Sahil Jain - Analyst, Ashwi India Holdings
Business, is very strong.

Samarth Ashok - Analyst, Janak Merchant Securities
Okay,

Sahil Jain - Analyst, Ashwi India Holdings
Construction crane business. And does that

Samarth Ashok - Analyst, Janak Merchant Securities
Also require aluminium, sir, or is it like some

Sahil Jain - Analyst, Ashwi India Holdings
Other

Samarth Ashok - Analyst, Janak Merchant Securities
Stuff?

Sahil Jain - Analyst, Ashwi India Holdings
It's steel. Okay, so the capacities that we have, sir, could they-

Samarth Ashok - Analyst, Janak Merchant Securities
Are they

Sahil Jain - Analyst, Ashwi India Holdings
Like fungible in dimensions? Like they can create this- that same machine can create for a passenger vehicle and for a construction vehicle?

Srivatsaram - Chairman and Managing Director, Wheels India
No, the passenger vehicle to some extent can extend to a light commercial vehicle, small commercial vehicle, maybe a small tractor to that extent, but nothing beyond that. The other wheels are much more heavier duty and cannot be made of the same.

Operator
I request you to rejoin the queue please, as we have participants waiting for their turn. Thank you.

Sahil Jain - Analyst, Ashwi India Holdings
Understood, ma'am. Thank you. Thank you.

Operator
Next question is from the line of Rajakumar Vaidyanathan from V Rajakumar. Please go ahead.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Hey, good evening. Can you hear me?

Operator
Yes,

Srivatsaram - Chairman and Managing Director, Wheels India
Rajakumar, please go ahead.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Yeah, thanks for the opportunity and congrats for the good set of numbers. Sir, I have 3 questions. So the first question is on the Porsche JV. Uh, just want to know what is the You know, the stake, because the press release says that ESF Group will hold 50% stake. So I just want to know what would be the stake of Wheels India, and also if you could give some more color

Srivatsaram - Chairman and Managing Director, Wheels India
In terms

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Of what is the investment proposed and, you know,

Srivatsaram - Chairman and Managing Director, Wheels India
Some more details, that would be helpful. Yeah, so, uh, you know, we signed a memorandum of understanding to have a joint venture. Joint venture is going through competition committee clearances in Europe, after which it can be announced. But broadly speaking, you're looking at about a Rs 100 crore investment. Wheels India's stake will be 20%. So 20% Wheels India, 30% Brakes India, and 50% Bosch India. That's kind of the JV setup. We are largely looking at making, you know, air management systems in commercial vehicles for European and North American markets.

And Wheels India's product in this joint venture is electronic air suspension.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
And is any of those products currently being produced? Because the reason is, will you be contributing any of the existing business into the JV?

Srivatsaram - Chairman and Managing Director, Wheels India
No, it will only be fresh business. We made it clear that, you know, prior knowledge and prior prior products will not be included. So this is- we're looking at just fresh

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Products. Okay, got it, sir. So the second question is on the tractor wheel segment. Given the LDO situation both domestic and globally, I just want to know what is the demand outlook

Srivatsaram - Chairman and Managing Director, Wheels India
And what is the outlook for

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Wheels India with respect to the same.

Srivatsaram - Chairman and Managing Director, Wheels India
So, uh, this is Let me say that, you know, I asked the same question of, you know, our largest tractor customer earlier this year, and he said, boss, if I'm able to sell the tractors, you know, I'll continue to make the tractors. So it's taken us a bit by surprise that the tractor market saw such a good growth in the first half. That said, the monsoons have been poor in areas such as Maharashtra, Rajasthan, Karnataka, and Uttar Pradesh. And, uh, you know, at least 3 of them are substantial tractor markets.

So we start- we do believe that, you know, the Q4, when the season will return, there will be some impact of that. But that said, you know, the northern part of the country is seeing decent rains, so there the demand may continue to be high, but some kind of moderation may be there. But, uh, still on a year-on-year basis, we don't expect it to decline because is expected to slow down. And globally also, globally is very different because globally it's a commodity that follows commodity cycles, and the cycle right now globally is down.

So it's, it's all dependent on how the commodities move globally. Uh, we are not seeing any upswing there. We're just getting into that market, and as we add products with upswing, swing happens, we should definitely benefit. But, uh, nothing positive at the moment globally other than the fact that we're winning business. Domestically, I do feel that it will taper off a little bit. The growth will get subdued, but we have to wait and see. The, you know, the Jan-Feb-March will give us an idea of how the market is doing.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Okay, so the last question is on the Cash flows, I see that the money that you have raised, it has predominantly gone into funding your working capital. So just want to know any reason we are having a negative cash flow for this first half. So is it an aberration or do you expect the pressure on working capital to remain for some

Srivatsaram - Chairman and Managing Director, Wheels India
More

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Time? No,

Srivatsaram - Chairman and Managing Director, Wheels India
So the just to answer your question, it is slightly. Auditing because September saw a sudden increase in sales, substantial increase in sales. So because of substantial increase in sales, suddenly, you know, we had to order a lot of materials and things like that. So the working capital requirement shot up because of the, you know, asymmetric growth towards the latter part of the quarter. This is, uh, one point. The other thing is there's also, you know, Not including 90 crores worth of CapEx which took place during the

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Quarter. So do you expect this cash to fund the repayment of debt or it will remain predominantly

Srivatsaram - Chairman and Managing Director, Wheels India
Working capital? Uh, no. Uh, see, working capital is also debt. We are borrowing money. So when you reduce your borrowing- borrowing is borrowing, cash is years, interest rates, your interest burden should come down going forward.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
No, no, my question is- sorry to labor on this- so my question is, uh, once the cash flow becomes positive, will you use that money to repay the working capital debt, or it will remain to fund your, you know, increased- whatever the expansion, further the working capital will be required, so that money will be used for

P. Ramesh - Chief Financial Officer, Wheels India
That? Ramesh, you want to give

Srivatsaram - Chairman and Managing Director, Wheels India
It a shot?

P. Ramesh - Chief Financial Officer, Wheels India
Yes, sir. Yes, sir. Right now we have applied this money for the repayment of debts. Okay, so we have- what we have done is that we have predominantly repaid bill discounting limits, and we have also partially paid the, uh, working capital demand loan. Like, uh, it was something like Rs 292 crores of bill discounting, about Rs 142 of, uh, the working capital Japan loan has been repaid out of the issue proceeds. So now we are seeing a negative cash flow. Your question is saying why we are seeing a negative working capital is basically because, as our CMD said, the, uh, this part in the sales resulted in the higher receivables and higher inventory, and because of which the working capital has become negative.

And, uh, and going forward, I mean, since the debt is already reduced using the issue process, going forward, given the present level of active- I mean, the, the activity, we, we don't expect further investment in working capital. So the cash approvals which we may be generating in the next, let us say, 2 quarters will be available for Applying to our capital requirements, CapEx requirements. And if at all if there is additional amount, we can always draw down on the loan. When you, you see the debt from Rs 1,167 crores in March, it has dropped to something like Rs 910 crores including the builders' contingencies.

Thank you so much. Thank you. All the best.

Operator
Thanks. Thank you. Next question is from Agam Shah from Agam Investments. Please go ahead, Agam. Please unmute your connection and go ahead with your question, please. Since there is no response, we move on to the next question from Neeraj Takkar from Profit Tantra Financial Services Limited. Please go ahead. Neeraj, please unmute your microphone. Uh, Neeraj, we're not able to hear you clearly.

Neeraj Takkar - Analyst, Profit Tantra Financial Services
Can you hear me? Yeah, we can hear you. Volume is very

Operator
Low. Yeah, thank you, thank you for checking. Uh, Neeraj, your volume is very low. Can you

increase The volume,

Neeraj Takkar - Analyst, Profit Tantra Financial Services
Please. Yeah, can you hear me now?

Operator
Yes, yes, go ahead.

Neeraj Takkar - Analyst, Profit Tantra Financial Services
Yes, yeah, yes. So sir, my question is regarding that, uh, margin. So this is what we are aspiring for, the double-digit margin. In next 1 or 2 years, if we reach the double-digit margin, how much free cash flow approximately 1 lakh or 1 lakh 3 lakh, how much we can expect,

Srivatsaram - Chairman and Managing Director, Wheels India
Sir? No, it depends, it depends on what our investment, uh, plans are at that time, how much we're expanding. So the free cash flows will depend on the, on the CapEx that is there. It also depends on how the industries in the various segments are growing. So it's very difficult to say what our free cash flows are going to be there because it depends on what is the business cycle at that point of time. Uh, but needless to say, you know, my broad belief is the next 5 years is a good time for us to grow as a country in terms of manufacturing, and we will continue to make investments that give us an opportunity to grow.

Operating cash flow, sir, can you give any idea? I, I don't have any idea what my operating cash flow is 2 years forward. Okay, sir, regarding this building and machining business, like as you have mentioned in the previous

Neeraj Takkar - Analyst, Profit Tantra Financial Services
[Foreign Speech] much doesn't coming to the topline but it is more of a but because it's a job and more flows into the bottomline. So how do we see this business breakthrough? Because already a double digit margin

Srivatsaram - Chairman and Managing Director, Wheels India
Margin business so next to three years come see this yes so we know, machining products which are made by a casting manufacturer. That casting manufacturer is recently- they're doing about 3,000-3,500 tons a month. They have recently, uh, you know, expanded from 3,500 to 5,000 tons a month, which we should start seeing from December-January onwards. So that is step 1. And step 2 is they will look at maybe a year, year and a half down the road, increasing that from, from 5,000 tons a month to say something like 6,500 tons a month.

So they do 1,500 tons at a time. So from that you can see that, you know, next 2 years we should look at doubling what we are doing currently in that business. So I think Rs 20 crores per month is very doable. Yeah,

Operator
Thank you. Thank you. Next question is from Anand Darshan from 361 Capital. Please go ahead.

Anand Darshan - Analyst, 361 Capital
Yeah, uh, hello, can you hear me? Yes, sir. Go ahead. So I have 2 questions to ask. One is, we have achieved exports revenue of approximately Rs 760 crore in first half. So what is our full-year revenue guidance for FY27? Could you also provide the breakup of exports between auto and

industrial segment? Then within that, you know, several auto ancillary companies are witnessing strong demand from overseas. Market, even by this cost competitiveness, then come to quality, and we are also adding capacities.

So against this backdrop, I just want to know what is your exports, you know, the growth that you are expecting for the next 2

Srivatsaram - Chairman and Managing Director, Wheels India
Years? Yeah, our strategy kind of- when you look at our strategy, some of the windows in the strategy not completely in the Industrial wheel demand, where we are already a leader, will be very export-oriented. Hydraulic cylinders will also be export-oriented. Cast aluminium and air suspension, of course, will be domestic, and the windmill sector will be also export-oriented. Yes, export showed substantial growth, and large part of that growth naturally happened in the US. So US business grew 50%.

Largely driven by earth mover wheels and mineral related products. So as you said, Rs 760 crores, it doesn't take, you know, too much to extrapolate that to doubling from that level for the full year. Our focus, our focus in this year is actually more towards winning new export business and executing on domestic business right now. So we take from now to March, we are really looking at how we can ramp up our domestic business in terms of production to meet schedules and new businesses that are won.

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

Anand Darshan - Analyst, 361 Capital
Okay, okay, okay, sir. Sir, uh, that is great to hear. And, uh, sir, second, you previously indicated that we are targeting 10 to 12 percent market share in passenger car alloy wheels. So based on my rough back calculation, it would imply increasing monthly volume from current 35,000-40,000 to 1 lakh, uh, wheel rims, right, sir? Correct. Per month. Yeah. So at this volume, what EBITDA, EBT margin that we can expect, sir? Yeah, like I,

Srivatsaram - Chairman and Managing Director, Wheels India
You know, previous colleague had asked, looking at something like 10 to 12%? Once you reach 100,000, we'll probably reach 100,000 by Q1. That's kind of what we're expecting. So I'm asking about the margins. Yes, I said 10 to 12%. Yeah, yeah, okay, sir. But when we reach 100,000 wheels, we will have 10 to 12% EBITDA, and we expect to reach that level in Q1 of next year. Yeah, okay, great.

Operator
Thank you. Thank you. Next question is from Samarth Ashok from Janak Merchant Securities. Please go ahead.

Samarth Ashok - Analyst, Janak Merchant Securities
Am I audible? Yes. So 2 questions from my side. First is, uh, the NRR Alloy wheel, we are predominantly- we make LPDC alloy wheels while the Japanese still work on GDC wheels. So do you see any acceptance of Japanese OEMs for LPDC wheels? And second, in the air suspension

business, now buses has reached a decent amount of penetration for air suspensions, and one of the truck OEMs has also launched a truck for air suspension. How do you see the penetration improving for trucks also in the air suspension wheels?

Any view on that? Thank you. Okay,

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

Second question is related to air suspension. On air suspension, you are right, you know, buses have got fair amount of penetration. Just to give you an idea, our air suspension business in the first half grew by around- or rather, second quarter grew by around 50%. So there's 50% growth, so substantial growth in this segment. You are right that one of the OEMs introduced a truck suspension, but that is really a fairly low, low margin business, and we We are not, we're not interested in entering a business which, any new business which will show visibility of less than double-digit EBITDA.

So we are not entering the truck air suspension business. Bus business, which also requires servicing and other such capabilities that we built up over the decades, is what we want to service.

Unidentified Participant - Analyst
So thank you for the- just a follow-up question on the first question. Is this a recent change of the Japanese buying LPDC wheels, or it has been there in the past as well? And also, what is the size of wheels that we will be selling,

Srivatsaram - Chairman and Managing Director, Wheels India
Sir? So typically, you know, the aluminum wheels tend to be between 14 inches in diameter to OEM- I'm saying 14 to 19 inches in diameter. Is a range, is roughly size that we are making. Change, yes. So people do not, do not necessarily prescribe LPDC or gravity die casting, but they look at certain characteristics which a process is able to build in the wheel, and there are ways in which you can improve the process even using LPDC and still achieve the characteristics which are required. Right, sir.

Thank you.

Operator
Thank you. Next question is from Lala Ram from Sabre Edge. Please go ahead.

Lala Ram - Analyst, Sabre Edge
Good evening, sir. Am I audible?

Operator
Yes,

Lala Ram - Analyst, Sabre Edge
Please go ahead. Thank you. So first question is, uh, as of today, by when do you think we will be able to touch Double digit EBITDA margin? 2 years. 3. 2 years. 2 years. Okay. Uh, second question is beyond. So if I look at the main levers that you have right now, it looks like aluminum wheels is one, I think the biggest lever, I believe, uh, within the external business to grow significantly fast. Beyond that, what would be the which, uh, business do you think the second and third in the, in the pecking order which will help you in bridging this

Srivatsaram - Chairman and Managing Director, Wheels India
Gap? So our industrial wheel business will, will also kind of help bridge that gap, but it may be slow to upgrade because the number of, uh, you know, the number of different- the variety is huge. So you have to add one, one product at a time. Uh, the other thing is, you know, flipping some of the businesses which are low margin, once they reach scale, they become double-digit margins. So notably, I'll say that the hydraulics in the business, which is right now a low business margin, low margin business for us, can become quite profitable once we scale and we also get into higher value categories.

So that's definitely one that I'm- I believe can help us. The windmill business, the machining business, of course, as you scale that business, that's also going to improve your margins. And on air suspension, again, I think once you reach scale at global- by scale I mean global scale- so once you reach global scale, then suddenly your costs become better, your efficiencies, your additional cost for additional sales becomes relatively less. So really scaling up business is the biggest opportunity out of- outside of aluminium.

And I believe that we have prospects to do that in, say, our industrial- some of our industrial tractor-related components, the machining business, the hydraulic cylinder business, and the air suspension business. Got it. So if I just want to understand that your industrial business, uh, today it is fairly small, uh, how big can it become in the next 3 years or 10 years? Yeah, our industrial wheel business is construction wheels and agriculture tractor wheels, which is Rs 1,500 crore. So it's not a small business.

Lala Ram - Analyst, Sabre Edge
Okay, my bad, I, I was referring

Srivatsaram - Chairman and Managing Director, Wheels India
To- yeah, this is, this is overall. And but the tractor, the tractor part of it is largely domestic. So as that export type of business increases, then the margin improvement there will be not unsubstantial. But I will, I will still agree with you. I think aluminum wheel, because of the quick ramp-up, be the first one to upgrade, you know, to the margins, followed by probably air suspension, followed by hydraulic cylinder, followed by the aggregate retractor. Thank you for that. One more question is, uh, you know, given you have

Lala Ram - Analyst, Sabre Edge
A lot of businesses, uh, and within each business, beyond just a product variety, there's domestic, uh, market, there's export market, so If I were to take a step back as a shareholder and I want to understand that if, you know, Wheels India has to become a Rs 10,000 crore revenue company, uh, what will drive that, uh, that growth? Is it, you know, becoming, uh, more of a global, uh, company and exporting more, or is it more, you know, driving the domestic business?

Srivatsaram - Chairman and Managing Director, Wheels India
If you can help us understand. Yeah, no, I think it'll be both. India will will continue to grow, and we are growing faster than most other large economies. And related to that, all the segments in India will also continue to grow. But we do want to be a, you know, a global supplier as opposed to being purely a local supplier. So we will also look at growing the businesses. If you are talking about the Rs 10,000 crore level, you know, outside of these current product categories, if at a later date we look at another category also, we may look at that.

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

Lala Ram - Analyst, Sabre Edge
And at that scale,

Srivatsaram - Chairman and Managing Director, Wheels India
What do you think our margins could look like? Will it be a ten percent or closer to twelve, thirteen percent? What is the opportunity there? So right now, you know, when you are down looking up, you look at only what is what is the next level, which for me double digit for me at the moment means ten. So ten [Foreign Speech] Got it. One last question. Yeah, so given, uh, whatever, you know, core capabilities we have as a, you know, as a manufacturer, which are the adjacent areas that we can enter

Lala Ram - Analyst, Sabre Edge
Beyond

Srivatsaram - Chairman and Managing Director, Wheels India
What we have today? Yeah, we have, uh, so on, on the industrial side, we can definitely look at whether we can start making modules with the subcases We do fabrication, we also do cylinders. So whether module expansion is possible is definitely something we can look at. We are also trying to examine whether there's an opportunity for us to get into components for gas turbines. It's still very early stages of investigation, but we are looking at that. So, you know, we work along with our customers, and as and when they open these opportunities for us, we should be ready to take them.

Operator
Thank you so much.

Srivatsaram - Chairman and Managing Director, Wheels India
Thank you.

Operator
Thank you. Next question is from Rajakumar Vaidyanathan from B. Rajakumar. Please go ahead.

Srivatsaram - Chairman and Managing Director, Wheels India
Yeah, Rajakumar, go ahead.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Yeah, thanks for the follow-up, sir. Sir, uh, this is a generic question, so I just want to know, do you use AI and AI-related solutions in your manufacturing and your day-to-day working? Uh, just for

What is your current usage, or do you expect the usage

Srivatsaram - Chairman and Managing Director, Wheels India
To go up in the, uh, you know, the months to come? So Rajkumar, you seem to think similar to my board. I will- I answered the same question in my board earlier today. But broadly speaking, we look at it, we are looking- we're using AI already in terms of basically quality inspection. We're using it in terms of, you know, capture and recalibration. This related to improving OE, preventive maintenance. We are examining how we can do better sale forecasting. So these are some of the areas that we are looking at AI, and we are examining whether we can use it to speed up the, uh, you know, product testing and validation process.

So these are some areas we're

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Looking at. Okay, and thanks for this, sir. So do

Srivatsaram - Chairman and Managing Director, Wheels India
You use your in-house resources or you work with any IT vendors on this? Uh, initiative? Well, as you, as you probably can see from our margin profile, we can't afford those people. So we end up working with vendors, we end up working with vendors, startups. There's a, there's a large motley crew of people who provide services in each of these subsegments of AI. Okay,

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
But, and do you expect this

Srivatsaram - Chairman and Managing Director, Wheels India
To kind of help you improve your margin in the days to come, given that the impact AI can provide? I think in terms of improving your efficiencies, it can definitely help, probably more so in some sectors as opposed to others, but we do feel it can help. Is it absolutely game-changing that it transforms the, the products that we make all that. Very unlikely. We are- I mean, if I can put it very crudely, we are in the metal bashing industry and we still need to bash metal.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Okay, got it, sir. Thank you,

Srivatsaram - Chairman and Managing Director, Wheels India
Sir.

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
2 more housekeeping questions, if you permit me. Can you ask? Okay. The first one is, given that you have significant exports, I just want to know what is your current hedging policy? Do you hedge or you don't hedge? Because last call, I think, uh, CFO mentioned you also import raw materials. So just want to know,

Srivatsaram - Chairman and Managing Director, Wheels India
Do you- do

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
You- we do it at open market?

Srivatsaram - Chairman and Managing Director, Wheels India
No, we look at the net exports. So we- yes, you're right, we also import. So we look at net exports, and the next net export level, we see whether we need to take covers. So it's a dynamic situation. The extent of COVID also depends. We work closely with, you know, consultants, uh, such as Rajwadi and all that, and then based on the advice, we make the

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Call. So you take only short-term calls, no, no long-term? No. And last question is on the other current assets have gone up by almost Rs 100 crores between March and September. So the CFO could answer that question.

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

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
So do you think this will, uh, this will be prolonged or it will get-

P. Ramesh - Chief Financial Officer, Wheels India
Because

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
There was some relaxation given last year.

P. Ramesh - Chief Financial Officer, Wheels India
Relaxation is given in terms of services, like, you know, you can also ask for a refund in terms of services. So we are working and we are like, I mean, we collect refund through the export route and through this, uh, But, uh, still we have a challenge of about Rs 130-140 crores, which is- which could- which ideally should be converted into cash, but we are a bit struggling on that. And we are working on various options on how we can reduce it. Hopefully we should be able to make some improvement in the next 2

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Quarters. But

P. Ramesh - Chief Financial Officer, Wheels India
There

Rajakumar Vaidyanathan - Analyst, B. Rajakumar
Is no provisioning required

P. Ramesh - Chief Financial Officer, Wheels India
For this in the event of not being able to collect. No, no, it is a, it is a balance in the portal, in the GST portal. So it's only thing that the usage is being delayed, your refund is getting delayed. We are getting refunds, but it is getting delayed here. Yeah, thank you so much.

Operator
Thank you. Our last question is from Rakesh Toba. From Rakesh, please go ahead. Audio is not

clear.

Rakesh Toba - Analyst
Yeah, now can you hear me please?

Operator
Yes,

Rakesh Toba - Analyst
Yeah, we can hear

Srivatsaram - Chairman and Managing Director, Wheels India
You, Rakesh. Go ahead.

Rakesh Toba - Analyst
Yeah, uh, I think I have already got 2 question answers on profitability and future growth from, you know, other people. My question is on exports revenue. So your exports revenue has strongly grown for this quarter, which is primarily led by, you know, construction equipment. Given the recent setup of your US and Europe subsidiaries, could you please share the export order pipeline in the second half of this fiscal year? And are there any specific risk margin which the company

Srivatsaram - Chairman and Managing Director, Wheels India
Is monitoring? Yeah, there's okay. A, there's no there's no risk margin to the best of my knowledge that we are monitoring, but we continue to see exports as being strong. So whatever we've done in the first half, we should only improve in the second half of the year. Order book looks reasonably strong. Uh, typically we work on, you know, customer schedules. So customers give monthly schedules and that's kind of what we work on, but they give us some visibility based on an S&OP. And a lot of these customers are customers we've been dealing for 10 years, 20 years, 30 years even.

So it's, it's more an ongoing business wherein, you know, you win a- you do a new product development and you get additional business from that. So we don't really track our order book per se, we just track our monthly schedules. And schedules remain strong, and at least in the near future, I don't see things slowing down. But we'll wait and watch because this is a very volatile world that we live in. And despite all the, you know, Duty tantrums that we saw last year, we were able to manage the last year.

Having substantial exports to the U.S., we did it decently well. Is there

Rakesh Toba - Analyst
Any challenges due to this geopolitical support in exports?

Srivatsaram - Chairman and Managing Director, Wheels India
[Foreign Speech] because they keep changing the duties, then they give the refunds, and the customer wants to know. So all that is there. But it's still, it's a business that I commented to. See, we we want to be global suppliers in some of the product categories. We are global suppliers in some of the categories. So it is really we don't look at it as export and domestic. [Foreign Speech] how do we service him the best? How do we do the best job of meeting his requirements? Some of them want are saying we only want people who are global suppliers.

So how do we meet that is kind of what we look. But prospects are quite good. I think people are

much more open to Indian products now compared to what they were five years ago. Thank you, sir. Thank you very much. Thank you.

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

Srivatsaram - Chairman and Managing Director, Wheels India
Thank you. Thank you all for joining the investor call, the earnings call. We continue to work on our key strategy along the points which, which I've shown in this slide, and we will continue to interact with you. We do thank you for all your best wishes and your queries. Some of your queries also make us think and act differently from time to time, so we will definitely continue to engage with you. And thank you so much for your interest in our company and look forward to Forward working with you.

To future interactions with you. Thank you.

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