STEEL STRIPS GROUP

STEEL STRIPS WHEELS LTD.

CIN: L27107PB1985PLC006159

Head Office : ISO/TS16949 Certified
SCO 49-50, Sector-26,
Madhya Marg, Chandigarh-160 019 (INDIA)
Tel. : +91-172-2793112, 2790979, 2792385
Fax : +91-172-2794834 / 2790887
Website : www.sswlindia.com

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BSE Limited
Department of Corporate Services,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

BSE Code: 513262

The National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051

NSE Code: SSWL

Sub: Transcripts of Conference Call - Analysts/Institutional Investors Meet - SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

This is in furtherance to our letters dated 11.07.2023 & 17.07.2023 regarding intimation and outcome (Audio recording) respectively of conference call with Institutional Investors and Analysts which was held on 17th July, 2023 on **"Q1 FY24 Earnings Conference Call to discuss results & future outlook of business"**, we enclose herewith transcripts of the aforesaid conference call.

The aforesaid transcript is also available on the Company's website at https://sswlindia.com/investors/analysts-investors-meetings/.

Kindly take the same on your records for reference.

Thanking you.

Yours faithfully,

For Steel Strips Wheels Limited

Shaman Jindal

Digitally signed by Shaman Jindal
DN: cn=Shaman Jindal, o, ou, email=shamanjindal@sswlindia.com, c=IN
Date: 2023.07.21 14:43:08 +05'30'

(Shaman Jindal)
Company Secretary

"Steel Strips Wheels Limited
Q1 FY '24 Earnings Conference Call"
July 17, 2023

MANAGEMENT

MR. DHEERAJ GARG – PROMOTER AND MANAGING DIRECTOR – STEEL STRIPS WHEELS LIMITED
MR. MOHAN JOSHI – EXECUTIVE DIRECTOR – STEEL STRIPS WHEELS LIMITED
MR. NAVEEN SOROT – CHIEF FINANCIAL OFFICER - STEEL STRIPS WHEELS LIMITED
MR. PRANAV JAIN – DEPUTY GENERAL MANAGER (FINANCE) – STEEL STRIPS WHEELS LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY24 Earnings Conference Call of Steel Strip 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 star then zero 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.

Amit Hiranandani: Thank you. Good afternoon, everyone. On behalf of SMIFS Limited, I welcome you all to Q1 FY24 Conference Call of Steel Strips Weeds 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 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, all investors. Very nice to host you once again. I would like to start off, I'm sure you have had a read on the results for the quarter one of this financial year and based on that, I would like to highlight some of the basic growth factors in our story for the first quarter. So, as you all know that we have a few segments on which we operate. For example, we have aluminum wheels. Aluminum wheels grew at a pace of 4.5% Y-o-Y over last year.

The export segment, again, you're aware of, grew by 157%. The commercial vehicle segment, domestic, grew by 11.6%. Our tractor business de-grew by 8%. Our passenger steel wheel business de-grew by 14%. And our two-wheeler, three-wheeler segment grew by 4.5%. So all-in-all we have a good growth of 8% on a weighted average basis. But primarily the number has been driven down by steel wheels for passenger cars. And I would like to take this up front so that we can discuss this later.

This happened mainly because we gave up a couple of businesses of Maruti which were at a very, very low value addition. So, we didn't want to focus on a business that was giving us 4% to 5% EBITDA. And I understand our competition did take that business, but as you can all see, reading from his balance sheet that he is also losing money in all his passengercar steel wheel business. It's something on which we have taken a conscious call to not take any low EBITDA of margin business.

In fact, as we speak now, I will make commentary as the questions arise. Our input costs that have risen remarkably in the last two years, we are now taking up our increase in input costs from our OEMs and we are putting our foot down and taking a tough stand in order to get back all the input increases that have happened over the last two years. So giving up of this business in the passenger car steel side is linked to that strategy., Overall, these are the broad parameters under which we have operated in this quarter.

Also, the passenger car industry in India has grown Y-o-Yby 11%. Overall, we've grown 8%, the reason why we did not beat the industry is basically because of the steel wheel business we gave up in Maruti. Normally we beat industry growth

Besides that, there have been certain challenges over the past one year. A lot of wage hikes happening, minimum wage is going up, plus we have accorded incremental ESOPs of INR2.7 crores. Obviously, this is not a cash item, but this shows up in the P&L. Nevertheless, this money stays with the company. So, this has been an increase.

We've consciously hired about 60 people in the R&D department and this is being done in order to train them for a future expansion that has already occurred or is in the process of occurring.A couple of things that have happened in the future expansion part in the castings business is that we've increased the capacity of aluminum wheels from 3 million to 4.8 million and that is happening as we speak. So a lot of new projects from America, a lot of new projects from Europe are coming to us and for which we've hired new R&D staff.

So that's why you don't see a remarkable improvement in EBITDA percentage or per wheel margin. But it is only because of these additional items that have come in. For example, let me repeat, from the ESOP of INR2.7 crores, it's about INR1.25 crores are for new hires, plus there have been increments which are on a bigger base. These factors have led to a reduction in EBITDA.

Also, I must add that we've invested in the EV business for two wheelers. So that has taken a toll of INR1 crore. So stuff like that, that really is futuristic. For example, even ESOP is futuristic because they are an investment in our people and people are the biggest trend of this company. So investment in new hires is for expansion in castings business. -- We are also entering into a new business.

I have hinted this enough in the past, but we have entered into a new business, rather let me put it this way, that is concerning casting for automotive, and it's the first of its kind in the country, and for sake of secrecy, I don't want to reveal the product's name, but we have hired people for that purpose also. So you will see incremental jump in sales in the next couple of years, mainly because of this new business, and also the expansion.

So for the moment, I'm happy to answer any questions that my audience would like to ask. Please go ahead.

Moderator: We have a first question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Hi, sir. You know, you had actually indicated on your last conference call that you guys were expecting about 20% volume growth and that overall you were expecting an increase in EBITDA per wheel as well. So just wanted to know whether, given all the incremental data which you shared earlier in the call, whether you were still holding by the guidance and how we should think about that going forward for the rest of the year.

Dheeraj Garg: I think that's a fantastic question. In fact, I should have talked about this in my opening statement. You see, when we are talking about a turnover of INR4,500 crores to INR4,700 crores this year, that is predicated on enhanced capacity. Utilization is not an issue with us. It's enhancement of capacity. Our capacity is going to 4.8 million aluminum wheels. That is going to start giving results from August onwards.

. So we've had a slight delay of one month here, but we've not lost any sales for that matter. In fact, in the month of July, we will have our highest aluminum wheel sales. Going into August, that will be a changer in terms of you will see incremental increase in the revenue of the company, as well as increased profitability. So, the picture of 4,600, 45,00, 4700 is going to play out predominantly in the second half.

So we are in the first half, second quarter, and you will already start seeing results of that as the results for July are released, and then August, September are released. So don't lose heart, I am absolutely committed to delivering those numbers that I've talked about. It's just that it has to happen in the -- latter half of the year.

Riddhesh Gandhi: Got it. And just want to understand what is actually driving this incremental growth and higher degree of confidence, because obviously the growth is quicker than the industry growth. Just wanted to understand that?

Dheeraj Garg: Yes, so as I said, our growth is going to come beyond the industry growth, simply because we are going to be exporting. So I mean, that's the next topic we can talk about. But you will see growth coming not only from steel, but also from aluminum. So, it's going to be an all-round growth. And earlier, we didn't have capacity. So we were very focused on the domestic market. That's why you see a 4% increase, a 4.5% increase Y-o-Y. But now the shackles have been opened and you will see a progressive increase in revenue from the aluminum side.

Obviously, if you want to talk about growth, then of course exports have grown 150% and thatrun-rate should continue for the rest of the year. I think we should be looking at INR 600crores plus in exports growth versus about INR 300 crores last year. So it's a 100% increase over last year.

Riddhesh Gandhi: Got it. And what is driving the increase in EBITDA per wheel is the exports is it the move towards alloy wheels?

Dheeraj Garg: Yes. Also, yes, EBITDA is going to be definitely driven higher by the aluminum wheel sales increase. That there's no doubt about. Also, by a higher increase in exports. But let me add a small caveat here which I should have addressed in my opening statement. It is that we have increased our exports, no doubt, but we have to give a small reduction in pricing in order to gain back the market share that we had lost last year. Last year we said there was a lot of inventory pile-up and there was a lot of rationalizing of inventory, so that's why we were losing out.

But I also had mentioned that we are coming back to it and we have come back to it. Maybe one quarter late, but we have surely, come back to our export mojo and we should be seeing solid numbers, albeit with a reduced EBITDA margin, but still very high teenmargin. So if I was operating at 20 plus, maybe I'm operating at 17.5 now. So it's not a huge game changer, but nevertheless that is something that needs to be considered.

Riddhesh Gandhi: Got it. And this is the last question, is that if you know, as you are evolving from actually steel wheels into alloy wheels, I understand that obviously the profitability overall is actually higher in alloy, but the competition is higher in alloy. As the industry is slowing moving towards alloys, would you expect to see a certain reduction in our market share? And how should we think about balancing these two things?

Dheeraj Garg: I think this is a brilliant question. I'm sure now the investors should listen very carefully. No doubt that there is enhanced competition domestically, but when programs are launched by OEMs, they normally get launched for the next two years. So based on the order book right now I have, I am totally sold out in 2026. I am in fact increasing my market share as time will go up because I have one business that I wasn't there in earlier. And I can also communicate to you that this is based on the existing customers.

Now, there is a very strong possibility that I get into the number one OEM of the country. Okay, this is again new news. People need to assimilate that and that will be a game changer and also along with that my exports are doing incredibly well and I hope to as I service the requirement because for one year I wasn't servicing the export business. Now as I service my business, I'm going to have exponentially more orders from there also.

So all-in-all if these two things standout as I said, entry into the biggest OEM of the country and increasing growth in the export business, then what I had told earlier that we will be going to 10 million wheels in three to five years. So that stand will also remain. So I'm very very positive on what I've spoken earlier, and I'm reiterating that, that these two things happening will be a game changer for the company. And we are quite close to both of them.

Riddhesh Gandhi: Got it. Thank you. Let me rejoin the queue. Thank you.

Dheeraj Garg: Let me add one more thing for the rest of the audience, so they can also understand is that there have been anti circumvention duties being investigated into Vietnam who is our main competitor for export of steel wheels. So that is also going to be our story as we go forward. So all-in-all, based on my previous call, I'm more positive than I was earlier.

Riddhesh Gandhi: Thank you. That's all for me. Thank you.

Moderator: We have a next question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for the opportunity. As you mentioned that you have a very strong order of allocation of alloy wheels and you are increasing 50% capacity in alloy wheels in FY24 only. So how much incremental revenue will we be able to generate in the next two years and how much share of business we can take from Maruti?

Dheeraj Garg: Incremental business, you can definitely multiply it by 50%. You will get the answer. But there is no new math to be done. And so far as market share is concerned, as I already told you, that we are taking market share away from competition. So far, and that takes our order book to 2026.

So in terms of entering, Maruti, we are very close and hopefully we should get some good news shortly. Maybe by the next conference call, you will have that news.

Abhishek: You are targeting around 100% revenue from alloy wheels in FY24 from exports as well. So what about the FY25 numbers, where you have a sufficient capacity for the full year.So can we expect around INR300 crores to INR400 crores kind of the revenue from the alloy wheels?

Dheeraj Garg: Yes, I think you have a fairly good point to make here that, the revenue from the alloy wheel business should cross INR300 crores next year. Next financial year.

Abhishek: And as you are mentioning that volume growth will be very much strong in the alloy base, so mix will move towards the alloy wheels, which is a high margin business and expecting our EBITDA per wheel around INR500 to INR550?

Dheeraj Garg: We are not saying INR550 EBITDA Nobody is saying INR550 EBITDA margin. We haven't declared to you any EBITDA margin on a per wheel basis. So we have just said consolidated we are at INR260. And I would not sort of volunteer to give you information about each and every business. So just because we were getting into problems with steel and aluminum price variation and EBITDA from 13% was coming to 11%, so people had a lot of genuine questions.

So to clarify those, we said our weighted average EBITDA is close to INR250, INR260 and obviously it will improve as we go forward with more alloy wheelchairs all I can say is that.

Abhishek: What is your target EBITDA in 'FY24 or EBITDA per wheels in 'FY24?

Dheeraj Garg: Last time I actually mentioned in one of my phone calls that, you know, we will have an improvement of 15%. And some people have understood it 15% per wheel of EBITDA, but at this moment I wouldn't want to sort of guide the market in terms of exact EBITDA per wheel, but I can always definitely say that we would be in the range of 10% to 15% improvement in the absolute EBITDA margins for the company, on an absolute basis because there are so many other pitfalls that might arise. I don't want to commit anything that doesn't come through, and then obviously the market can change. But for now, what things are looking like market is even if it remains at this level, we will do much better than we have projected.

Abhishek: As far as the employee cost is concerned that is there any oneoffs in employee cost because if I take the run rate of INR88 crores then there will be around 24% growth on a Y-o-Y basis on employee cost?

Dheeraj Garg: If you look at this quarter's number the new hirees which are exclusively meant for future expansion they took away INR1.16 crores plus ESOP which is a non-cash item, so this is like a INR2.7 crores. So if you start analyzing all these costs then obviously it may not work out in that manner plus similarly INR1 crores on EV again that's a basically a cost of capital nature, but we've expensed this. So, stuff like that is going to happen when expansion happens. Now, we may take a policy of capitalizing it, but for now we haven't done it.

So, I would say that increments this year we target about 8% increments. So, whatever our salary bill was last year we target 8% over that and going forward, you know, you will have higher revenues happening. So, when the higher revenues happens the employee cost per wheels will come down rather .It looks higher right now, but it'll come down as we get to the second half of the year.

Abhishek: Okay, and my last question on the PLI side, so how much total investment in the PLI and how much incremental revenue can we start to generate from PLI-to-PLI?

Dheeraj Garg: At the moment the PLI is still not finalized because we are in the process of finalizing our agreement with Redler. In fact, we should be having this news out by this week at best because it took a long time because of the agreement. It involved a lot of IP and so there were a lot of negotiations. Hopefully this week we will do that. And once the investment for this controller happens, we are going to start investments in the motor business. So, as we get a critical mass we will apply for PLI under the policy.

We already approved, but we need to qualify for it. For that, we need to generate revenue, but to generate revenue I need to start investment and for that I need to make agreements. So, all this is happening it went beyond our assumption of time, but nevertheless we're still on it, so I can't comment on PLI. Do notconsider PLI as part of your future EBITDA gains until we announce it..

Moderator: Thank you. We have our next question from the line of Varshit Shah from Veto Capital. Please go ahead.

Varshit Shah: First of all thank you management for giving opportunity and really speaking your heart out. I think we really appreciate such commentaries. My key question is on the alloy wheel side. So, on the new expansion the alloy wheel are you targeting majorly export markets or you will be targeting the Indian market as well?

Dheeraj Garg: We will target both markets, why should we leave the Indian market? Our whole sales plan predication are all expansion is based on domestic as a base and export is obviously an incremental bonus, but it's a good bonus the market is huge. We want to prove to the world that we are the lowest cost producer of aluminum wheels in the world and are, at least in the top five quality wheels of the world. We are able to demonstrate that and pretty soon you will hear very, very good news from both the domestic and the export segment. So, I think by the next conference call in fact you can ask me this question what happened to what you're predicting right now. So, you will have some news by then.

Varshit Shah: Yes, fantastic. My second question is a follow-up on that. So, domestic versus exports I mean in domestic the margins are lower and export margins are higher.

Dheeraj Garg: That is not my mydifferentiation it is similar margins.

Varshit Shah: In terms of working capital also it is largely similar?

Dheeraj Garg: Working capital is stretched. You're right. Working capital is stretched because they pay in 60 days, sometimes they pay in 90 days. And that's one reason that our working capital has gone up in this quarter, but I don't think that's going to be a big tensor on the EBITDA margin, on a percentage wise. Even if it takes away 20 basis points, it's okay, it's not a big deal.

Varshit Shah: Right, right. So if you look at our last minute working capital this improved sharply over the last two years, so if I were to just take FY23 as a base I mean March 23, would you be able to sustain in that particular range plus minus 5-10 days?

Dheeraj Garg

Naveen Sorot: So if you look at the total export that we have done in current quarter versus the Q1 that we did last year, there is a jump of almost 100% from INR72 odd crores that number has moved to INR154. So, just because of that number increase there will be some buildup of receivable, but receivables I guess the outer limit for the receivables that we are carrying across the customer that we are serving is around 90 days. So, blended I guess this will come down when the entire impact comes in.

Varshit Shah: Got it, got it. So, on a ROCE basis it will be largely similar I mean, both export and domestic sales?

Naveen Sorot: Yes see part of it gets compensated by higher EBITDA margin in this businesses.

Varshit Shah: Right. So what I'm trying to say is that at the ROCE level it would be largely similar for both the business?

Naveen Sorot: Yes.

Moderator: Thank you. We have our next question from the line of Aditya Welekar from Axis Securities. Please go ahead.

Aditya Welekar: Yes, so thanks for the opportunity. Sir just want to understand amongst our EBITDA per wheel it is going to be in the range of INR250 to 260 per wheel, right in 'FY24?

Dheeraj Garg: We would rather comment on this in the second half. So, for the first half yes it's going to range around this number.

Aditya Welekar: Okay, understood. And absolute EBITDA growth, EBITDA correct is 15% in 'FY24 we expect, right?

Dheeraj Garg: Yes, that's our plan. And I really want... I mean this is all predicated on the second half being amazing. But as things stand right now, the things are pretty good.

Aditya Welekar: So what's the status on our AMW acquisition and its rampup?

Management: So those NCLT has reserved its order. We should be getting the order anytime in the next one or two weeks and hence after that we should be taking over that project. And we already have plans as to what to do there. We are going to increase our capacity to make commercial vehicles because we are getting a lot of traction for commercial vehicle exports as well as domestic and we are also getting into a newer customer that we were not present within the South.

And so these are the two things that we want to do immediately upfront plus we will probably sort of use equipment from there to improve productivity by taking higher production equipment from there and installing them in our various location to increase productivity and lower cost. Another thing that we are doing a lot is on automation. So, this has not been talked about, but we've done an impressive implementation of about 90 robots in the last financial year.

And, in fact our mother factory which is the oldest in the world and the biggest factory in the world under a single roof it's pretty automated now. You will see and all those minimum wages are going up. In fact, minimum wages have added INR1.55 crores this quarter on the cost. And this particular quarter INR1.55 crores is the impact of minimum wages. So, we understand that, you know, besides input increases there are manpower costs which are going up and we are taking up with that these costs with the customer, but at the same time we are implementing automation in order to reduce our reliance on the human labor.

Aditya Welekar: Understood, good to hear that, sir. Sir, just taking a bit of a longer term way means for 'FY25 means given all the positive factors you just explained on the export side on alloy wheels automation can we not expect that this EBITDA per wheel will rise vis-a-vis FY24 means the trajectory will be upward.

Dheeraj Garg: Of course, trajectory has to be upward because we are moving into all value-added products. I mean so all the expansion that is happening is in value-added including the AMW. So, AMW will get us a CV kicker, alloy expansion is going to get us a high value-added kicker plus the casting business that I have not spoken about is going to be an extreme and the most profitable business for us. So, and that's a new-age business. So that the results of which you will see next financial year for sure, yes you're right.

Aditya Welekar: Can you quantify a ballpark range where we can use in our projection, EBITDA per wheel? Or you can tell us a little bit about EBITDA per wheel between alloy wheels and steel wheels?

Dheeraj Garg: Okay, so I can give you the numbers if you want to note it down. So alloy wheels we did about in this quarter INR271 crores and then you said CV, alloy wheels versus CV you said?

Aditya Welekar: Alloy wheels versus steel wheels EBITDA per wheel.

Dheeraj Garg: EBITDA per wheel. So I don't want to sort of, I told you at the beginning that I don't want to reveal my numbers absolutely on this call because I was forced to give the numbers per wheel because the percentages were varying. But I don't want to get into the granular part because there is competition also listening and two customers are also listening to this call. So I want to keep it away from more questioning from unwanted areas.

Aditya Welekar: Understood sir. Thank you.

Moderator: Thank you. We have our next question from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

Kumar Saurabh: Thank you. I have three questions. The first question, as you said, in alloy wheels, we have the lowest cost producer. So just if you can, you know, expand a little bit on what are the reasons. Are these purely labor economic reasons or we have some kind of process or IP advantage? That is one. Second, our aspiration to, you know, go for 10 million, four, five years down the line in alloy wheels. Also have you taken into account all the cyclicity and all the changes, or those factors have not been taken into account? And third…

Dheeraj Garg: What is the second question?

Kumar Saurabh: Second question is, we have a long-term vision of going for 10 million capacity maybe five years down the line. So when we say this aspiration, does it cover all the cyclicity which plays out in different auto segments or not?

Dheeraj Garg: I can tell you one thing that the aluminum wheel business in terms of volume is in crores. So I am at let's say 50 lakhs now. So, we are talking about a very small percentage of this market. Now, what I am predicating my growth cycle is based on obviously cost like you said, yes, there are advantages of human labor in India, both staff level as well as worker level and the cost of finance is very similar to the world. So, we don't have any distinct disadvantage from the rest of the world.

Pluswe have transportation advantages because it's cheaper to ship from India to a western port than it is to ship from an eastern city in Europe to a western city in Europe. So I pick up all the boxes to be successful in terms of cost. And quality is a given for any business. So there we don't need to discuss. We are there because of our quality, number one. Number two is cost. And what you said, unpredictability of the global market scenario.

You know, we have just taken one bucket out of the ocean. So there's a whole ocean to be milked. So as long as my cost is lower, and my quality is higher I see no visible problems other than geopolitics, you know, that nobody can predict or of course, may do it. So, beyond going to those levels, I am pretty sure about the trajectory that we are taking because it is a no brainer for the buyer and no brainer for us to produce at those levels of cost.

Kumar Saurabh: Okay, thank you sir. One more question. Sir, as you said in the beginning that there is a lot of additional hiring which has been done to drive the new businesses and there is a way of getting leverage to play out. So I'm not asking for how much margins and all, but it might take one quarter, two quarter, three quarter. So when do you see that kind of operating leverage on the new capex which is going very cleanly?

Dheeraj Garg: Second half of the year you will see those results. It's already happening in this marginally, but you will see substantial gains in the second half. So when I give out the December numbers to you, you will notice that EBITDA has improved and the volumes have improved and the revenue has improved.

Kumar Saurabh: Thank you sir and wish you all the best.

Moderator: Thank you. We have a next question from the line of Avadhoot Joshi from Bryanston Investments. Please go ahead.

Avadhoot Joshi: Hi, good afternoon. Thanks for the opportunity. Two questions. First about the adding the 60 people in the R&D for alloy wheels. I would like to know what are we trying to achieve by this, whether we are looking at the weight reduction into the alloy wheels and how we want to do it. If you can throw some light on it. That's first.

Dheeraj Garg: This is for new project. You know, we are taking, we have to entertain so many RFQs globally. In order to answer those RFQs, we need to process the information and that is done through an R&D mindset and a computer and a seat. So you need to have all that in order to process an RFQ and if I want to sell 5 million wheels in next financial years, I need to get the businesses now. e already have gotten some businesses already in the past, so that's why I'm saying you will in any case see an increase in revenue from from aluminium wheels.

Avadhoot Joshi: What's our timeline from RFQ to SOP kind of thing? What will be the timeline for us?

Dheeraj Gargt: It depends on customer to customer. RFQ to SOP, it could be two months. It could be four months. It all depends on how soon the customer wants it. And sometimes it entails testing, sometimes there is 3 extra months for an OEM, so it could be from 2 to 9 months, it could happen from 2 to 7 months I would say. That would be the case.

Avadhoot Joshi: So I would say it's a much smaller part for us, it's not that long stage?

Dheeraj Garg: That's why I am saying you are going to see results in the second half.

Avadhoot Joshi: Okay, I understand. And lastly, sir, when you said that 4.5 million alloy wheel capacity will be utilized by FY26, so are we planning for another capacity expansion?

Dheeraj Garg: Yes, we are always on the lookout. As soon as we fill up this order book, the capacity of the plant, I am going to look for another capacity enhancement. There is no doubt. These are not going to happen from one day to the other. It's going to be incremental part. So, now I'm going to be at 5 million and then I will add another 2 million, let's say, for example. And I will look at it strategically for domestic as well as export. So, there's a lot of things happening.

Avadhoot Joshi: Normally it would take one year to add capacity?

Dheeraj Garg: I would say about 15 to 16 months.

Avadhoot Joshi: What would be the capex then if you want to increase by 1 million kind of?

Dheeraj Garg: **Cant comment on that right now because** I don't know how much it will cost. We do a mix and match of old and new equipment. We never go for all new equipment. We are on the prowl for new equipment. We will see what we get them.

Avadhoot Joshi: Thank you so much and all the best.

Moderator: Thank you. We have our next question from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Thanks for the opportunity. And sir, first of all, congratulations for this conservative accounting policy. I hope you continue with that and focus on future ROCEs rather than near-term margins. So please don't change unless it's very required to do so based on acceptable accounting policies, one. I have a slightly different question first. On the R&D side first, so you said that you had hired 60 people. Now how should one look at the R&D part of this and generally in your assessment, what is lead to lag time? When do you decide to hire people, when by the time you hire people then they start?

Dheeraj Garg: So the hiring happens based on the RFQs that we receive. So when we see that existing, we see the rate of change in increasing RFQs and then it also entails the process of hiring. The process of hiring takes about 3-4 months for the candidate to be interviewed, joined and etc.

And we forecast based on our marketing as to how many businesses they can get us.

And because we've been in touch with the customers, so one customer can give you 60 RFQs, for example. There have been cases when one customer has given us 60 RFQs. And obviously the volume may not be very, very high in each of them, but still they need the same amount of attention and time. Of course, we get a better margin on those businesses, but such like that.

So it is based on the flow of RFQs, as well as on a gut feel as to what is the productivity. In fact, we are running our R&D in shifts now. So because we don't have so much office space, we put R&D in eight-hour shifts so that they can process the RFQs 16 hours a day.

Chirag Shah: I presume these are all junior talents and not very senior talents?

Dheeraj Garg: They are pretty senior talent. They are postgraduate degree holders and majority of our team is postgraduate.

Chirag Shah: No, in terms of experience, so these are like kind of freshers?

Dheeraj Garg: Yes, so they can be trained by a system, yes. So they get an IP knowledge when they work with us. It's very beneficial to them also because they work on certain software's that we paid for and those software's are not very easily available to normal people outside this business.

Chirag Shah: Couldyou can indicate what is the total strength of R&D today that you would be having?

Dheeraj Garg: I can tell you that this has been a substantial hike in R&D hiring. I don't want to give you numbers because it goes to competition.

Chirag Shah: Are these R&D people are fungible? Because you are also working on multiple projects?

Dheeraj Garg: That is a good question. They are not fungible. But we have used our steel-experienced guys to get into aluminium. So, it really answers your question in a roundabout manner. But the guys that we hire right now are exclusively meant for aluminium and a new product. Again, people should not forget that there is another R&D going on that has kept under wraps and that is very, very strong and I don't have a name for it so it doesn't probably cross your mind. But keep in mind that these 60 people are not only for aluminium wheels but also for another new business that has started and we should be rolling out revenue in the next 3-4 months.

Chirag Shah: I was actually asking from that perspective only. Given that you are focused on EV and the casting piece which you indicated, is this R&D team fungible between different projects or no unique dedication?

Dheeraj Garg: That's right. For the business that, the casting business, yes, there will be fungibility in those. But we still have kept them independent because there's a lot of work for the aluminum guys right now. We are training people for this new product, this new casting product independently. But yes, in future they can all become leaders and cross-functionally train each other and work with each other.

Chirag Shah: Okay. So the RFQs that you are participating in now, are they for the similar type of wheel sizes, in terms of inches as well as width, or these are all very different wheels which?

Dheeraj Garg: No, they are similar and different at the same time. So there's going to be a mix of OEM as well as aftermarket business. So, there is something that we can handle easily. In fact, we have also some of our work to China because China sometimes is cheaper to do this work for us. So, we are not leaving any time to get to the market. You know hiring is not so easy, talent availability in India is a big challenge, although we are such a large country. But we are doing everything possible to reduce the time to mask.

Chirag Shah: Just one housekeeping question. I had on number of wheeled reams, but that's it, nothing else. That you generally share every quarter reams sold in the quarter. If you can just share that number.

Dheeraj Garg: Volume, Yes. So again, that's something I don't know if my team has shared with you or not. But I think I would rather not do that at the moment. Again, this is all confidential for us.

Chirag Shah: Because in the past, every quarter you used to give one number, total number of wheels sold. That's it. Nothing else.

Dheeraj Garg: I'm not aware of it. But we can pass this information on. We've done that before on the volume of wheels sold in this quarter.

Chirag Shah: Okay. Yes. Thank you.

Dheeraj Garg: You can be in touch with SGA.

Chirag Shah: Yes. I'll come back for more questions.

Moderator: Thank you. We have a next question from the line of Aabhash Poddar from Aionios Alpha Investment Management. Please go ahead.

Aabhash Poddar: Just wanted to understand your thoughts on the steel wheel capacity utilization. Where I'm coming from is you've mentioned earlier that you've let go of some business from Maruti and you will have this AMW capacity coming on stream probably in the next month hopefully and you talked about new orders as well which you are looking for. Currently clearly there is some volume which is undergoing some stress on the steel wheel side.

So just wanted to pick your brains on how do you think about capacity utilization? Wouldn't it have been okay to keep the Maruti business and steel go with the AMW because you will have excess capacity anyways. So could you just please talk about that and your thoughts there, how are you thinking about it?

Dheeraj Garg: Okay, so with the advent of exports, our utilization has remarkably improved over the last year. We have an 8% increase in sales and most of that increase has come from the steel wheel side. And we have to consciously, we are trying out a way wherein we improve the quality of life of our workers, improve the quality productivity of our workers than to just go for mass business and run the plant seven days a week.

So we have consciously decided that we will give, since the plants are also, instead of doing a fire-fighting operation, we are sort of saying, look, we will improve the quality of our cost by lowering our cost, not having unwanted breakdowns, and only work on businesses that really give us at EBITDA margin. So if I were to just add capacity in Chandigarh plant, where we let go of the Maruti business, it would have meant not much change in the overall EBITDA margin, or EBITDA, absolute EBITDA for the company.

So it's, I would say that we've consciously taken a decision to focus on high value item and we are seeing that in export. Plus, we are saying that our utilization in Chandigarh plant will be better than last year simply based on the growth in the tractor business and the upsurge in the export business. So I don't think, but your point is valid and so far as AMW is concerned, we are going to pick and choose equipment from there, improve our productivity in the existing business. We're not going to start that now.

Aabhash Poddar: So just to clarify, so basically what I wanted to eventually get to is, AMW coming in and you having almost six and a half million capacity initially, even if that is ideal for some point of time, there will not be any incremental cost pressures that you see coming from there, right?

Dheeraj Garg: No, because we will not have an incremental cost pressure, but at the same time, we will increase our capacity in CV. As I said earlier to somebody else's question, that, we are going to add capacity in the CV business. CV business is doing tremendously well in India and this is a cyclical bull run for the next three years, four years at least. So, and we are sold out on our capacity for CV production. In fact, I'm short of production capacity in aluminum. I'm short of production capacity in CV. And I have remedial measures for that and the AMW is coming at the right time for me.

Aabhash Poddar: Perfect. That's great to hear. And the second question was just an update. So basically just trying to understand, what is happening on the Redler base. And obviously you mentioned some comments where you will sign the contract, But, any work also from when on, what time we start seeing them contribute meaningfully, one is the Redler second is the casting bit also you talked about. So when do these things start hitting our revenue and we see meaningful numbers from here?

Dheeraj Garg: Materially speaking, they will add revenues in the last quarter of this year and progressively.

So I would not point that out and take that in my projection sheet that this is going to give thatEbitda. So I would say it is at a beta stage. So coming to the fourth quarter, we will be giving you a better picture on the whole thing.

Moderator: Thank you. We have a next question from the line of Priyank Parekh from Abakkus Asset Managers LLP. Please go ahead.

Priyank Parekh: Yes, thanks for the opportunity. I just wanted to understand on the capex planning. In last quarter, we guided for a INR150 crores of capex and now we are talking about the expansion.

Dheeraj Garg: Part of the same expansion. Last year's expansion and in this quarter I can also add that, we did a INR90 crores capex., This is a expansion of our existing What you may call a alloy wheel facility to take it from 3 million to 4.8 million wheels and this has said we come into play next month itself So I don't see much capex happening beyond this. Plus on the castings business, there is going to be some capex. We will let out the details on capex. I don't have them offhand on me, but whatever capex, we are doing this year, we'll ask SGA to publish this to every investor.

Priyank Parekh: Okay. That is helpful. And you covered this thing in previous answers as well. But just wanted to understand, what is the kind of incremental revenue, you are seeing from the non-wheel business that is this casting and…

Dheeraj Garg: Asking the same question in another way. I wouldn't want to comment on it because I am not sure of everything that I should be saying on this issue. So believe me, I will come to it with my own volition, maybe in the next conference call or definitely in January I'll come and explain to you everything. Because by then the, cat will be out of the bag and everyone will know it.

Moderator: Thank you. We'll take our next question from the line of Himanshu Bisani from Niveshaay. Please go ahead.

Himanshu Bisani: Hi, thank you for the opportunity. I just wanted to ask on, if you could give me all your export breakup, that INR150 crores of export revenue we have?

Dheeraj Garg: Again, these are all confidential information. I don't want to reveal to my competition, what I'm doing. You're making your own company weaker in front of competition by asking, by seeking this answer.

Himanshu Bisani: Okay, no issue. My next question would be that you see recovery in the coming quarters and the next years to be better. Which auto segment do you think, will lead this recovery?

Dheeraj Garg: No, so, yes, as I, I don't know, if you heard my call in the beginning, I said, the aluminum wheel business and the export business is going to be leading the story for the second half of this year and that's where you will see the higher EBITDA numbers and higher revenue numbers.

Himanshu Bisani: No, sir, my question was auto segment like EV, CV, where do you think the recovery would be leading?

Dheeraj Garg: I don't think, I would want to sort of again share the granular details of my business simply because I've given you a macro picture, exports to exports, the EV to CV. I think, I'm pretty sure you can make a big sense out of it rather than asking me how much is of aluminum, how much of steel and how much of casting, etcetera. So please bear with me on this one.

Moderator: Thank you. We have our next question from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Thank you for the opportunity. First question is actually, just looking at the cash flows. You have generated almost INR1,000 crores of cash flow in the last four years, which primarily went for debt reduction, and now you have around 50% lended to equity. Now going ahead, next three years, you might generate a very similar amount. And, you're not now constrained by debt or reduction in certain ways. We're just trying to understand, have you thought out, how you want to deploy the next INR1,000 crores on various assets? Are you comfortable with the current debt equity ratio? And would you look to give back to shareholders, how would you break that up into various assets?

Dheeraj Garg: I think, Pulkit, that's a very good question. And if you want my honest answer, I haven't thought about it. You may say that this is naive or whatever, but the real cash flows are going to come out once this expansion is complete and new revenues come in. So yes, this exercise we would like to do next, when we are looking at the results of this financial year and going into the next financial year because we have no other expansion plans this year other than the casting expansion, the alloy wheel expansion, the expansion into motors, the expansion into controllers. So all these four things are now known to everyone and beyond that, and of course there will be an expansion on AMW, which is obviously going to to contribute to increased revenues in the next financial year.

And some in this year already, because we will be using the CV facilities from there., I don't want to give you a long answer to this question. We haven't thought about the next INR1,000 crores that are going to come in. But I'm sure by the end of this year, we will have some new ideas. We will have to expand our capacity in our casting business because this casting business is a niche business and it is very akin to the alloy wheel business.

So, first mover advantage is with us plus the market is going to explode. So, there will be expansions on that account. And we don't know how well the business with the motors does. We may end up in the EV space in a very, very big way. So, things are a little bit unclear at the moment, but what we are clear, what we have spoken about, we are implementing. So, there is no deviation or change and no distinct.

Pulkit Singhal: Understood. The second question is just understanding the employee cost structure. So getting the quarterly aspect, if I broadly look at it, INR220 crores of employee cost two years ago at FY22 and this year seems closer to INR360 crores. This is a sizable INR140 crores kind of jump in these two years. And now…

Dheeraj Garg: I'm not so sure about this question, the classification under which you are saying from INR220 crores to INR360 crores on labor expenses. I don't think that there is some... But you know, you kindly send us this question and I'll have it examined and give you a clear answer because I'm not aware of what you're just saying.

Pulkit Singhal: I'm just looking at the employee cost reported. But my idea was just to understand that, what percentage or what is the amount that you're spending on initiatives that are based on generated revenue?

Dheeraj Garg: The R&D cost, the EV cost, let me reiterate that for the audience again. So we've had an increase of 116 lakhs from new hires. We've had an increase of INR 1crore from investment in the EV business. So this is clearly 2.16 crores in the business. For which revenues are going to start happening over the second half of this year. minimum wages have also gone up by INR1.55 crores. That is something not in our hand.

I have increased more productivity or get input increases. Something I said in the beginning that I'm going to put my foot down and I'm going to ask the OEMs to pay for the wage increases because wage increases are much higher than the productivity increases that, we are able to generate. So yes, this is where we are at.

Moderator: Thank you. We have our next question from the line of Imran Khan from Longbow, India Capital. Please go ahead.

Imran Khan: Hi, thanks for the opportunity and good afternoon to everyone. Sir, my question is on your exports. I have two questions. So first one is on, if I look at your global, maybe global players who are in the same business, can you please tell us how different are our segments compared to let’s say Maxion Wheels or Ronal Group in Europe?

Dheeraj Garg: So our wheels are not different. They’re absolutely not different. They are the same.

Imran Khan: So then in that case, so for example, Ronal Group, the average realization per wheel is about you know, INR5,500 to INR6,000?

Dheeraj Garg: , That is in EUR. Again, exchange rate makes a difference, plus the cost are higher in Europe…

Imran Khan: Sir, I am only talking about in INR terms. So I know...

Dheeraj Garg: So you convert that in INR, what exchange rate? You converted that by INR95, INR90, INR80, it all varies. And secondly, aluminum prices are much different than in Europe, than in India. And the cost structure in Europe is much higher than it is in India. So you cannot say that, the same thing, it's like buying a McDonald's in India versus buying a McDonald's in America. It is not the same.

Imran Khan: Right, so then my subsequent question to this is, if I look at their cost structures, maybe if I focus on employee cost only, in percentages term, they are paying almost double the percentage that we pay. So we in India are…

Dheeraj Garg: That's the advantage, absolute advantage, yes.

Imran Khan: So can you please talk more about it and tell us maybe in the future, your growth will be much higher because this arbitrage is there and therefore...

Dheeraj Garg: I said in the beginning of the call that I am looking at 10 million wheels predicated on the fact that. I will be the lowest cost producer of wheels in the world with the quality amongst the top five vendors of the world. There is nothing new in this to add.

Moderator: Thank you. We have our next question from the line of Hrishit Jhaveri from Pi Square Investments. Please go ahead.

Hrishit Jhaveri: Hi sir, thanks for the opportunity. Sir, I wanted some outlook on the raw material cost in the coming quarter and in the coming financial year. What's your outlook there?

Dheeraj Garg: I think aluminum prices have almost bottomed out and I also feel that, steel prices have bottomed out. On here on, we expect it increase. I don't know, what percentage of increase but it could be very much in the range of 10% to 15% as we go forward in the remaining part of the quarters in this year.

Hrishit Jhaveri: And we expect to pass it down?

Dheeraj Garg: Always pass it on.

Hrishit Jhaveri: Okay, and sir, also can you give us some brief highlight on the order book currently in the alloy segment and the steel segment, in terms of…

Dheeraj Garg: Im sold out till 2026 in alloys. In CVs I am sold out. I am having capacity. In tractor I have leverage. I can do more. In pass-car steel I can do more. But overall operating at a better run rate than last year.

Moderator: Thank you. We have our next question from the line of Sourav Dutta from Minerva. Please go ahead.

Sourav Dutta: Yes, very quickly, just wanted to understand the breakdown between value and volume over the past one year for this quarter?

Dheeraj Garg: So, the value is there and published now, one zero something number is there. And volume obviously, we've just mentioned that, we don't want to reveal volume. And if it's necessary that you want to have those volumes, you can be in touch with SGA.

Sourav Dutta: No, I just, I meant the growth. If there's the growth numbers?

Dheeraj Garg: It's at 8% growth in numbers.

Sourav Dutta: No, sorry, I didn't get that part.

Dheeraj Garg: At the beginning of the call.

Sourav Dutta: That should answer my question. Thanks.

Moderator: Thank you. We have our next question from the line of Sumangal Pugalia from Rare Enterprise.

Sumangal Pugalia: Yes, hi. Thanks for the opportunity. So I have one basic question, it's been touched upon but not really convincing or a clear answer. The question is that, as our alloys being mixed in terms of value has reached 30% in terms of volume 16% in FY '23 and somewhere stable in Q1 FY '24. But our basic overall margin, the entire thesis is that, shift of sales mix to higher margin alloys in segment. That is not clear. So if you can, in one or two key points, simply explain why the margin profile has not improved in the last year and also the first quarter, despite a significant improvement in alloy wheel mix?

Dheeraj Garg: So, if you look at what I said earlier in the call, we have had a 4% increase in alloy wheel, not more than that, because of capacity constraints. So all that expenses that we are doing in R&D costs and development costs, which have been expensed in this quarter, will come into fruition in the second half of the year when we start ramping up our capacity by 50%. So imagine that, what you are talking about, 50% increase in sales in aluminum, surely will increase our EBITDA percentage as well as well as EBITDA per wheel and overall EBITDA of the company.

That story is playing out from August, as I said. In fact, from July, already we have some inventory. So, we are going to be hitting our highest sales. So, every month, you will see a very solid number in aluminum wheels. And every month, we release the numbers and you can see that, there will be a solid growth on Y-o-Y. Right now it's a 4% growth, so it doesn't look much. But as the month progresses, you will see better numbers on this. It will touch double digits also toward the end of the year.

Moderator: Thank you. We have our next question from the line of Pranay Khandelwal from Alpha Invesco. Please go ahead.

Pranay Khandelwal: Hello, sir, thank you for the opportunity. I wanted to ask about this particular metric, EBITDA per wheel, but like the historical. I don't want to go in the future. So in FY '19, we had an EBITDA per wheel of close to 268 and in those years from FY '19 to FY '23, our alloy as a percentage of total revenue has gone up from 3% to 30%...

Dheeraj Garg: Let me correct you, you know the EBITDA in 2018-2019, I have just been given this data, is not 260, it is 166.

Pranay Khandelwal: According to our calculation, it was coming out to be…

Dheeraj Garg: But then I am giving the calculation that we, our accounts department has done. So maybe your calculations have made an error.

Pranay Khandelwal: Maybe we will look into that. So according to you, they were 160.

Dheeraj Garg: Yes, there is 33% increase.

Pranay Khandelwal: Then that makes sense. That was the apprehension. That's why I wanted to ask this question. Why is it that alloy wheels are gone, but the EBITDA per wheel is still stable? And apart from that, I wanted to ask about the capacity that will be added on by the AMW acquisition?

Dheeraj Garg: Yes. One of your colleagues said four to five million, which is fair enough, but we will not have use of that capacity right up front, but slowly, but surely we will add capacity as we see it alongside the market dynamics. So for now, this year, you will see incremental only in the CV segment, that we will enhance the CV sales, and CV is a good business for us. Next year, we should be adding agriculture wheels from AMW.

And then, we are adding another line over there, which I have not spoken about, but that is going to cater to the higher size wheels of the off-highway segment. And for that, we are working with OEM. As in how we get traction and a letter of comfort from the OEMs, we will invest in that. And that will happen in AMW. So for now, you can park this question for the next meeting, but do ask this question next time, because this question is relevant.

Moderator: Thank you.

Dheeraj Garg: I think, we should make our closing remarks now.

Moderator: Please go ahead, sir.

Dheeraj Garg: So, I think I am very happy to have this call every quarter and every time, I have this call there is a better understanding of a business by the investors and the questions are very much pointed and very much useful. In fact, I draw a lot of inspiration from your questions and it motivates me to do better. So it's a win-win for both sides. So don't think that it's just that you need to make money or I need to make money. Both of us need to make money and both of us help each other. You guys asking me questions and your questions give me a lot of insight to my own business. So thank you for that.

And finally, I want to add that, I've spoken about de-pledging my shares and I promised the market that, by end of March this year, I would be down to 5% or somewhere in the early numbers. Unfortunately, I was not successful in implementing my target, but I am pleased to announce that today I have de-pledged 50% of my pledged shares today in one go. So that should go a long way in allaying any concerns that investors had for the last three years, four years. And this is all. I want to say before I sign off. Thank you all very, very much.

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