STEEL STRIPS GROUP

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The National Stock Exchange of India Limited
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Plot No. C/1, G Block,
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BSE Scrip Code: 513262 **NSE Symbol: SSWL**

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

Dear Sir,

This is in furtherance to our letters dated 17.01.2024 & 22.01.2024 regarding intimation and outcome (Audio recording) respectively of conference call with Institutional Investors and Analysts which was held on 22nd January, 2024 on **"Q3 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 above on your records please.

Thanking you.
Yours faithfully,
For Steel Strips Wheels Limited

Shaman Jindal Digitally signed by Shaman Jindal
Date: 2024.01.25 22:35:41 +05'30'

(Shaman Jindal)
Company Secretary

"Steel Strips Wheels Limited
Q3 FY '24 Earnings Conference Call"
January 22, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 22nd January, 2024 will prevail

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

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

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '24 Earnings Conference Call of Steel Strips Wheels Limited hosted by SMIFS Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

Amit Hiranandani: Thank you. Good evening, everyone. On behalf of SMIFS Limited, I welcome you all to Q3 FY '24 Conference Call of Steel Strips Wheels Limited. We are pleased to host the senior management of the company. Today, we have with us Mr. Mohan Joshi, Executive Director; Mr. Naveen Sorot, CFO; and Mr. Pranav Jain, DGM Finance. Due to essential work priorities, Mr. Dheeraj Garg, Managing Director, is unable to join this call. We will start the call with initial commentary from the management, and then we will open the floor for Q&A.

Now I hand over the call to the management team. Over to you, sir.

Pranav Jain : Thank you, Amit. Good evening, everyone. Hope everyone is doing well. On behalf of Steel Strips Wheels Limited, I extend a warm welcome to everyone joined us today to discuss our financial results for the quarter and 9 months ended 31st December 2023. I hope everyone had an opportunity to go through the financial results and investor presentation, which we have uploaded on the stock exchange and our company website.

I'll start with the business highlights. I will begin with the capex projects and then we'll move on to our financial and operational performance for Q3 and 9 months FY '24. Post that, we will open the floor for Q&A.

To start with, our total capex spend for 9 months FY '24 is INR255 crores. We expect for the full year FY '24 capex spend to be around INR470 crores. On Steel Wheels business on 9th January 2024, company has successfully implemented the CIRP plan for making the payment of INR138.15 crores through a mix of equity and debt, AMW Autocomponent Limited has become a wholly owned subsidiary of Steel Strips Wheels Limited by subscribing its 100% equity share that is 50 lakh shares with face value of INR10 per share.

Balance amount of INR133.15 crores infused as intercorporate loan. The said amounts shall be utilized as full and final settlement of all the creditors of AMW Autocomponent Limited and shall be treated as full discharge of SSWL obligation under the approved resolution plan.

With this, we shall build operational steel wheel capacity of 7 million wheel rims in total for CV, tractor and PV. AMW Autocomponent plant, it has a land bank of around 61 acres. On alloy wheel brownfield capacity expansion project, which we had preponed majority of the capex to Q3 FY '24. For this total capex required is approximately INR190 crores and till date INR155 crores is spent on this project. This project will increase the alloy wheel capacity of about 1.8 million wheel rims, though by FY '24 end, it is estimated to ramp it up by 3.6 million wheel rims of alloy operational capacity. It is expected to get fully completed by Q2 FY '25.

On auto industry, the Indian government's current initiative of assisting the auto sector image transition into new powertrain wheels is resulting in positive outcome. As for 2024, the automotive sector is hopeful that the growth trend will carry over and boost the auto ancillary sector along with it.

The passenger car segment has achieved some interactive sales milestone, 1 million units in the third quarter of FY '24, 3 million units from April to December and 4.1 million units from January to December. This is really encouraging news, thanks to strong economic growth, new product launches, record breaking festive sales and car manufacturer end-of-year discounts.

Now we come to financial highlights. Coming to 9-month performance of FY '24. Revenue from operations for the period increased by 8.3% year-on-year to INR3,288 crores from INR3,036 crores in 9 months FY '24. EBITDA saw 5.9% growth at INR354 crores in line of FY '24 against INR334 crores in 9 months FY '23.

Profit before tax stood at around INR221 crores, and the profit after sales stood at around INR159 crores. The profit after tax margin for 9-month FY '24 stood at 4.8%. Revenue mix for 9 months FY '24 has been 28% for alloy wheels and balance 72% is from the steel wheel rim business. For alloy wheel rim, sale volume has increased 4% Y-o-Y to 22.2 lakh wheel rims. For steel wheel, sales volume has increased by 11% on a year-end level to 121.6 lakh wheel rims.

On quarterly performance, in Q3 FY '24, revenue from operations for the quarter increased by 18.3% year-on-year to INR1,110 crores from INR938 crores. EBITDA saw 8.2% growth at INR117 crores against INR108 crores reported in Q3 FY '23. Profit before tax stood at INR71 crores, and profit after tax stood at INR59 crores. Profit after tax margin for Q3 FY '24 stood at 5.4%. Revenue mix for the quarter has been 27% for the alloy wheel and balance 73% is from the steel wheels. For alloy wheel rims, sales volume degrew by 1% year-on-year to 7.4 lakh wheel rims. For steel wheel rims, sales volume has increased by 16% year-on-year to 38.9 lakhs wheel rims.

Coming to export trends. In Q3 FY '24, company has locked 179% growth in export revenue Y-on-Y. And for 9-month FY '24, it grew by 130%. Export sales volume grew by 188% in Q3 FY '24 and 189x in 9 months FY '24 year-on-year. Export sales has been supported by an improving demand scenario.

In Q3 FY '24, we began invoicing for overseas customer on CIF basis shipment billing. Our shift from the FOB basis is resulting in increased top line by INR20 crores as a pass-through of increased sales costs. However, EBITDA remaining the same and hence impacted the EBITDA margin. These impacts will be continued to see in Q4 FY '24 as well as on basis of export demand pickup. Further, there was an increase in steel prices by INR2 per kg from 1st of October 2023. And this increased the top line by INR15 crores approximately, which further impacted the margin in percentage terms.

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

Moderator: Thank you very much. The first question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek Jain: Thanks for the opportunity. Sir, as you mentioned that you are adding the capacity in alloy wheels. So when can we expect the new capacity will start to produce? And by when you would be able to complete your 4.8 million capacity?

Mohan Joshi: So as we speak, for the financial year 23-24, I think we are already at close to 3.6 million capacity with the capacity expansion already on stream. And we feel that by the second quarter of financial year 24-25, we'll be hitting 4.8 million kind of a capacity, which the plant will be ready in terms of the alloy wheel side.

Abhishek Jain: So for FY '25, what would be the capacity utilization of the incremental capacity, I mean to say that around 1.8 million wheels? And how much would be from -- demand will come from the export and domestic, both sides?

Mohan Joshi: So we feel that next financial year, I think we have already guided in terms of the total tentative order book that we feel that, given that there's going to be a domestic demand growth in terms of passenger vehicles. And there's going to be an export-led development growth, which is already underway. We feel that next year, we are going to be in the range of 3.5 million to 3.6 million wheels in terms of the order book. And next to next financial year, we're going to be close to 4.2 million in terms of the order book.

Abhishek Jain: And can we expect the new orders from the Maruti from alloy wheels side?

Mohan Joshi: I think we updated this last time also that the RFQ has been issued by Maruti to multiple incumbents. And we were expecting this results of the same in terms of some highlights coming in from the customers.

I think the technical output has already come in and has been shared, and we have cleared that. On the commercial side, the bids have still not been opened, and we are expecting this to be done within the next 4-5 days. That's what the indication has been coming from the customers.

Abhishek Jain: Okay. And is it for the 3 to 4 models or is it for the...

Mohan Joshi: It is only for the incumbent models. No new models. It is only for the second sourcing.

Abhishek Jain: Second sourcing. Okay. And what would be the quantum of that order?

Mohan Joshi: See, the development cycle time is close to 6 to 7 months. And the kind of share of business, which they will be sharing with us, will be known once the technical bids are going to be opened up.

Abhishek Jain: Hyundai is also adding the new capacity in the February. So how much new orders will you get because of this new capacity addition?

Mohan Joshi: So as we speak, Hyundai has full capacity being run up in the Chennai plant, and they are producing consistently from that plant itself. And anything which is -- because we have our share of businesses which are linked up with all the existing models. So any share of business growth will be dependent on what kind of cars that they're going to produce. So they have a capacity of close to 7.2 lakh to 7.4 lakh vehicles per annum. They are almost running at full capacity. And any capacity addition will add the production and in lieu, our share of business will increase.

Abhishek: Thanks sir, that's it from me.

Mohan Joshi: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Aggarwal from DV Investment Advisors. Please go ahead. Since there is no response, we will go with the next question. The next question is from the line of Rohit Suresh from Samatva Investments. Please go ahead.

Rohit Suresh: Yes. Hi, good evening and thank you for the opportunity. Sir, my first question is, sir, on the December volume numbers that -- on the press release that you mentioned. So the industry numbers, I'm just looking at it. Tata Motors, Hyundai and even Mahindra & Mahindra are major customers, they have all reported, for the month of December, double-digit growth. But if I look at our numbers for the alloy wheels part, volume-wise, 10%.

So I just want to know like any particular reason? Or is there a lag effect that has come through? Or -- because the SUV numbers have also been very positive for the month of December, and numbers don't show that, at least on the alloy part. So just wanted some clarity if you could help me.

Mohan Joshi: So I think the car sale numbers do not give a true picture of alloy segment. I think it is the picture of car production that the -- car sales that they have done and not the production. December will have the impact of Maruti going for an annual shutdown, Hyundai going in for a partial shutdown and various other OEMs going in for partial shutdown and they are clearing some of the inventory that they have from -- in their yards to clear up for the sales. That is first part.

I think alloy is always a driven factor of penetration of alloy in terms of which customer is penetrating more and which customer is not penetrating more. And I think we've been very fair to that, except Maruti and Honda and Toyota, where we are not present. We are at a major share of business, which is at close to 50% to 53%. And we continue to maintain that.

And these are dynamics, which are not month-to-month tracked. As an industry, we are at close to 33% to 34% of the industry. And we -- amongst 4 - 5 players, we are trying to maintain that share of business for the company.

Rohit Suresh: Fair enough. Fair enough. Got it. Sir, second, on the alloy wheel export part. So for the 9 months, we have done around 1.7 lakh units. So I just want to know for FY '24, '25 of the guidance that you mentioned, just -- to the previous participant of FY '26, you want to do 4.2 million alloy wheels. How much of that will be export? Any broad percentage?

Mohan Joshi: No. I think at the beginning of the year, we tried reaching a number close to 2.4 lakh to 2.5 lakh wheels for the exports segment contributing close to INR100 crores worth of sales. And we have -- the numbers indicate that we have already reached close to 1.75 lakhs. And we anticipate this number to be in the range of close to 2.2 lakh to 2.5 lakh range.

And next year, we anticipate this volume to be growing at 70% to 80% higher than the current juncture and contributing another set of good growth coming in from this segment because opportunity is very big and development is already underway. And we think that next financial year, we will target anywhere between INR180 crores to INR200 crores coming in from the export side on the alloy side of the business.

Rohit Suresh: Yes. Sir, on the Israeli, I remember there was a -- we tied up with a partnership with an Israeli company for the controllers and motors part for the EV segment. So any update on that? Because there are some few other companies, smaller private companies who are also entering in that segment, the two-wheeler segment. So I just wanted to know where are we in that journey? And next two years, how -- will it start contributing by FY'26, '27? What's your strategy on that part?

Mohan Joshi: I think we clarified in the last conference call also regarding the situation of geopolitics in this segment, and we are closely monitoring this segment and in touch with the Israeli company. But I think they are not in a state of business where they can continue this talks right now. And we have kept these things on hold as we speak. The political situation is very,

very volatile in that country and the contribution coming in from that side is looking very faint.

Rohit Suresh: Got it. Sir, next on the EV parts. So like Mahindra, Tata, what will be our market share in the EV segment?

Mohan Joshi: I'll tell you that how it works out. We are already supplying the steel wheel of the EV for two-wheelers and three-wheelers. We are already supplying the EV segment -- PV segment of wheels where in the Tata side of the wheels, we are at close to 63%, 65% of the EV segment. In Mahindra, we are already at close to 65%, 67% in terms of EVs.

On the two-wheeler side, where we have hub motor wheel business, we are close to 60% of the market. And this market is -- right now, on the two-wheeler side specifically is very stuck because of failed subsidies and various other issues. And we are seeking some clarity from that side to take it off, and we are prepared for taking this leap higher on the wheels business.

Rohit Suresh: Got it. Sir, just one last bookkeeping question. In the beginning of the call, you just said the total AMW acquisition, like what's the total cost? And how much was debt and equity? I just missed that number, if you could just repeat that.

Pranav Jain: Okay. Total we bought at INR138.15 crores with the equity share INR50 lakh with face value of INR10 each and balance amount INR133.15 crores infused as an intercorporate loan.

Rohit Suresh: Okay, so INR138 crores. Okay, fine. Sir, thank you so much. And am wishing you all the best. Thank you.

Mohan Joshi: Thank you.

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

Omkar Arora: Hi, sir. Congratulations on a good set of results. Sir, my only doubt is about the EBITDA margins. They seem to have fallen off at 0.5% or so. So is there any particular reason or so for that? And then is there any pathway to recover those margins and go ahead with a higher-margin bracket like we used to be in?

Mohan Joshi: I think Pranav clarified from the perspective that we have -- on the export side, the customer has started asking because of the volatility of the freights, which is happening because of this current Red Sea issue. What they have asked is that they have started asking the pricing to be done not on an FOB basis but on DAP or CIF basis, which has increased the top line by close to INR20-odd crores, which is actually a freight, which we have to pay back to the vendors. So this INR20 crores is one of the parts because of which the top line has been contributed positively, but it is actually not the top line.

And margins are on an absolute basis in terms of EBITDA contribution per wheel is almost at INR252 to INR254. And the other factor is that there is an increase in the raw material prices of close to INR2 per kg on the steel side, which has also contributed close to INR15 crores on the top line addition, which obviously not has contributed towards the EBITDA. It's a pass-through. So these are some of the reasons.

Omkar Arora: Just a clarification. So your expanded alloy wheels capacity is coming up soon. So would that, on a consolidated basis, affect the margins on an -- overall as well? And what kind of impact do you expect it to bring in on the numbers going ahead?

Mohan Joshi: I think what is happening is that the expanded capacity is going to be in place in next financial year anyways. And we are anticipating this capacity to be utilized because there's been 24 months of continuous 100% utilization of the plant, which is very, very risky.

And I think with increase in the passenger vehicle exports as well as passenger vehicle alloy wheel domestic market share in the overall business of -- or business revenue of SSWL, the margin profile should improve.

Omkar Arora: And sir, one last thing about your alloy knuckle business which you have been mentioning about. Any progress or update on the same?

Mohan Joshi: So on the alloy wheel knuckles, I think we are anticipating the first sales to be starting from July, August 2024. And as per the latest customer anticipation, these are all born electric vehicles from the customer side. And there are two customers where the pitch has been done, and both the customers are anticipating their productions to be starting from July '24 to August '24. So we anticipate the realization of revenue from those months.

Omkar Arora: And what about realization to EBITDA going ahead in the future financial years. Is there any projection that you have done for it?

Mohan Joshi: I think that there are internal projections, but it will be fair for us to give you an idea once we start the production. Will that be fair?

Omkar Arora: Sure. Thank you so much.

Mohan Joshi: Thank you.

Moderator: Thank you. The next question is from the line of Anand Mundra from Soar Wealth. Please go ahead.

Anand Mundra: Hello. Good afternoon, sir. Sir, wanted to understand what is the long-term target for EBITDA margin? Last year, I understand that you said that export will go up, so EBITDA margin may have some improvement. But this year, we have not seen that. There are reasons which you have mentioned in the opening remarks. But how do you see EBITDA margin in the next two, three years when your capacity of alloy wheel will go up from 30% to 48% and more capital utilization of the AMW plant also?

Mohan Joshi: So first of all, I'd like to give you some perspective of margins. I think as a company, we are looking at margin absolute in terms of per wheel. And I think for this quarter end, we are standing at close to INR256 as against INR248 last quarter.

And as a percentage, it's a demeanor because there's a lot of raw material movement, which will come and go. As I've just updated in terms of the freight, it is -- imagine that tomorrow, the freight component is not INR20 crores and becomes INR50 crores, it will get added to my top line, but will not contribute anything to my EBITDA. So these are features where we try to avoid this. And from INR248 levels, we have moved for this quarter towards level of INR255, INR256. And this journey is going to be continuing going forward with the mix being favorable.

And there are capacities which are now getting built for exports to be catered where I've already updated that this year's number will get a bump up for next financial year to the tune of 70% to 80% in terms of alloy exports, which is going to be a favorable side. And this segment of export on alloy side is going to be the key differentiator for the organization because the market is fairly very, very large, development pace and commercial competitiveness is going to be the first feature on which we are going to be deciding the future course. And we are fairly very optimistic on this side.

So this is one area. I think the margins are fairly very stable, given that competitive pressures are coming from the export side, wherein there is a very large amount of slowdown, which is already going in, in U.S. and Europe. And we anticipate ourselves to be growing our market share and not letting it go as against China. And we are going to continue this momentum of reaching a threshold of INR550 crores to INR600 crores worth of export in this financial year, and targeting close to INR750 crores to INR800 crores for next financial year is what we are anticipating as we speak.

Anand Mundra: Okay. Thanks for this. One more question. You mentioned that in FY'25, the order book of alloy wheel will be 3.5 to 3.6. So how much that will translate into sales because our capacity -- or shall we assume 3.6 as a targeted sales value for -- sales volume for next year?

Mohan Joshi: Yes, you can anticipate that because there are pluses and minuses in terms of the peak and trough demands. And we feel export, as I said, is anyways going to be contributing more in terms of absolute growth for the segment. And domestic market is fairly very mature right now with a penetration of close to 38%, 39%. And we anticipate this penetration to be holding this level and trying to balance itself because it has moved from 25% to 40%. And volume growth, I am taking into my consideration a major growth of 4% to 5% in terms of PVs.

If we are surprised on this side, then obviously this number can be a little higher for next financial year. Because Maruti always going to be a pace where we are anticipating positive results. And that can be a game changer for the organization post six to eight months of development phase for the organization.

Anand Mundra: So for the next two years, we are expecting 20% growth in alloy wheels. In export, we are expecting around from INR650 crores to INR750 crores, correct? Steel wheel, what kind of growth rate shall we assume?

Mohan Joshi: So for export, as I said, for this year, we are anticipating INR550 crores to INR600 crores worth of revenue. And we anticipate this number to be between INR750 crores to INR800 crores for financial year '24, '25.

Anand Mundra: Correct. So alloy wheel and export, I got a clarity. What about steel wheel, if you can give some guidance?

Mohan Joshi: I think on the steel wheel side, the revenue breakup will be a growth of between 3% to 5% at best.

Anand Mundra: Okay. Understood. And how much alloy will be...

Mohan Joshi: And this is on the back of the numbers that I shared with you that I'm anticipating between 4% to 5% of PV growth. If this growth goes up, obviously, the numbers tend to move up.

Anand Mundra: And how much alloy is exports, sir? Out of this INR550 crores, how much is the export?

Mohan Joshi: Export will be between -- one second, please. So close to INR160 crores to INR170 crores of alloy exports.

Anand Mundra: Okay. Thanks a lot, Mohanji.

Mohan Joshi: INR170 crores, INR180 crores roundabout.

Anand Mundra: Okay. Thanks a lot, sir.

Mohan Joshi: Yes. Thank you.

Moderator: Thank you. The next question is from the line of Narendra from Robo Capital. Please go ahead.

Narendra: Hi. Thanks for the opportunity. Most of my questions have been answered. Just one question regarding your EV segment. So what kind of revenue growth are we expecting over the next, say, couple of years or two, three years from this segment? How much would it contribute going ahead to the top line?

Mohan Joshi: So EV for us -- as for wheels, EV is wheels agnostic because alloy wheel does not have a differentiator between steel and alloy as well as in alloy, there is only one alloy, which is a wheel for normal car as well as for the EV. So it will be very tough for us to give you a perspective on that.

I think on the steel wheel side, because we are -- it's a different wheel for EV versus the normal two-wheeler. So we anticipate this market to be growing at between 25%, 30%. Given the challenges that the industry is facing in terms of warranties, in terms of frame subsidies, so a little bit of clarity needs to be given into that side. So on the two-wheeler side, we anticipate this number to be sustaining between 30,000, 40,000 numbers per month with a 60% share of business. And we feel this market will grow 20% for us.

Narendra: Okay, got it. And just one another question. So you told that you would be aiming to grow EBITDA on an absolute terms. So any target growth rate on the EBITDA front, if you could share?

Mohan Joshi: It is a tough question given the kind of business dynamics that we are in. We can only say that the trend for EBITDA per wheel is going to be moving higher given that alloy contribution will be growing at a larger pace than the financial year '23, '24.

I can't give you a forward-looking statement on this side. But I think in anticipation of the top line, which is at between INR4,400 crores to INR4,500 crores for this financial year, we anticipate INR4,800 crores to INR5,000 crores worth of top line for the next financial year and maintaining and improving the matrix. I can give you that bit of clarity.

Narendra: Okay, got it. That helps. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vivek Aggarwal from DV Investment Advisors. Please go ahead.

Vivek Aggarwal: Sir, this question is regarding the interest cost that we're seeing in your books. The interest cost has hovered around INR80 crores, INR85 crores for the last four years, despite the debt moving down from INR900 crores to almost INR638 crores in '23, which has now jumped to around INR836 crores in H2 -- H1 FY'24. So what has been the reason for this? Why is the interest cost not moving in sync with the debt movement?

Naveen Sorot: So see, there are two parts to it. One is, though the overall borrowing was coming down, but at the same time, the repo rates were increasing. So the last 1.5, 2 years, we have already seen more than, I guess, around 250 points of point of increase on the rate.

Moderator: Sir, can you please come close to the device, sir?

Naveen Sorot: Yes. Is it fine now?

Moderator: Yes, yes. It's fine.

Naveen Sorot: So there are two parts to it the question that you have raised. One is the overall interest rates have moved up because they have moved in tandem with the repo rate. So there's almost 250 basis point increase we have seen in the rate part, which has got it transited into the P&L.

Second, I guess, for current year, the borrowing has also increased. As we stated in our last call as well that we have preponed most of our capex. As a result of it, there has been increase in the borrowing. In fact, with this acquisition of AMW, there's an additional loan of INR100 crores, which will get added.

And this year probably will be the peak year in terms of the overall debt that we are getting in the books, and we'll see repayment and maybe faster repayments happening from the next year onwards.

Vivek Aggarwal: Sir, I was not on the current year. Current year is very well understandable. It's the history, which was a bit -- there was a bit of a gap. Because from INR900 crores, when you moved to INR600 crores in '23, still, interest costs remained almost static. And through the annual report when we see the breakup then there's a component of interest others, which has increased from INR8 crores in '20 to INR43 crores.

Some part of it will be reclassification from interest and working capital loan to interest others. But the other part of the increase to keep the interest cost at the same level for the last 4 years was a bit of not in sync with how it should have been.

Naveen Sorot: So what probably we can do to help you out with this, we can address this separately wherein we can review the debt-wise movement in this that probably will help you in understanding the overall movement in the -- on the overall amount part. Would that help?

Vivek Aggarwal: Yes, sir. That will be very helpful, sir. So nice of you. Thank you sir.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Yes, good evening sir. So firstly, on the tax rate. This quarter, the tax rate came in quite low. So any specific reasons for it? And what will the guidance for this year and next year going forward?

Pranav Jain: We shifted to the new regime, and the applicable tax rate in that regime is 25%. And going forward, 25% will be applicable.

Shashank Kanodia: Okay. So Q4 onwards, will be in the 25% bracket, right?

Pranav Jain: For this year.

Shashank Kanodia: Sir, Q4 will be in the 25% bracket and next full year will be 25%, right?

Pranav Jain: Yes.

Shashank Kanodia: Okay. Secondly, sir, on the top line front, in last quarter con calls, you have been maintaining that we will be able to do something like INR4,500 crores to INR4,700 crores of top line. And now you have downgraded that estimate to INR4,400 crores, INR4,500 crores. Is my understanding it and what will be the reason for it?

Mohan Joshi: So there is -- there are two reasons to fix that. As I said, from October, there is a price increase, which has happened. Prior to that, there is an impact of raw material decrease, which has happened of close to INR4 a kg. And these will continue to take up and down.

Right now, INR4,400 crores, INR4,500 crores is visible right now as we speak, based on the current raw materials, which are going to be a part of the business. And there is a settlement, which is pending from -- in the month of January also. We don't know whether it's going to be on the upside or downside. But these are the indicators from side of the top line.

The volume growth, I think volume is being sustained right now. I think we added up close to -- we gave that number of 20-odd million for the financial year '23, '24 in terms of the business, and I think we'll be fairly hitting that number.

Shashank Kanodia: Okay. And sir, how will you rate the AMW acquisition. It should be accretive to us or -- at the placement that you bought? How excited about this avenue right now?

Mohan Joshi: As you see, when we talk about the capacity utilization, I think the domestic truck field capacity utilization is running at almost 95% for the past 3-4 months. And the debottlenecking, which we need to be doing within this, and there will be an additional capacity, which will be needed for catering between 5% to 7% kind of a growth on truck side, where the capacity is not there with us.

And the first leg of revenue from the AMW assets will come from the truck business, where we anticipate this contribution to be starting after 4, 5, maybe 6 months while the repairs and line setting and everything is going to be put in place. And we anticipate, on an average, 25,000 to 30,000 wheels of the larger contribution -- larger size to be coming up.

And they can contribute anywhere between INR60 crores to INR80 crores worth of revenue in financial year '24, '25 on the best effort basis. And for the next financial year, the other assets will be coming into the play, where the capacity utilization is getting compromised within the company.

Shashank Kanodia: Because, sir, this year, we end by something like INR4,500-odd crores, and alloy wheels would be like 30-odd lakh units next year, you're guiding for guiding for INR36 lakh. So incremental INR300 crores we're getting from alloy wheel itself. So -- from 45 to 48. So it does make a sense that maybe we are going slow on the wrap-up for the AMW side, or are we guiding...

Mohan Joshi: No, it is not that way. I think from the revenue side that we get from alloy this year. Next year, revenue accretion will be anywhere between INR200 crores to INR250-odd crores. Balance INR500 crores to INR600 crores will be coming in from the perspective of steel wheels, in which the contribution will be largely driven by the large wheel because the valuation is anyway going to be better and balance is from the PV side and the tractor side and everything where the assets are anyways in place, and as I said, the first leg of revenue recognition will come from the truck side, where we are already running at 95% plus utilization.

And there is no backup just in case something like a 15% kind of a growth comes in the CV side. So as we are discussing with the CV players, they are anticipating this growth to be anywhere between 7% to 8%, where order booking is already going in. And we think we are actually prepared for taking over this opportunity to generate this kind of revenue from AMW assets.

Shashank Kanodia: In best case, our revenue should be in excess of INR50 crores to INR300-odd crores, right, because...

Mohan Joshi: Industry has to also grow. I can grow to INR5,700 crores also. The point is that the segmental growth, nobody knows how it's going to happen. Like nobody knew that in December, tractor industry will break 12 years record low of production, right? Nobody knew.

So we anticipate a fragmented growth of GDP x 0.85 as a multiplier effect. That's what I feel is going to be really rational because now the PV side of the inventory is at almost 60 days. So there is no scope of inventory-led production being done. So whatever is going to be made will be sold. That's why I've demarcated 5% of volume growth for PV. I have demarcated 5% to 6%, 7% growth for the CV side, where we are prepared for that. And on the tractor side, we feel that, that growth is also going to be in the range of 4% to 5%.

The assets are fully prepared for taking this kind of a growth, except the CV side, where we need the AMW assets to produce extra wheels starting from June/July 2024, which is going to be -- the action has already started on that. And we feel that over the next 4 or 5 months, the asset will be ready to produce this kind of volume and help the customers -- help us to meet the customer demand.

Shashank Kanodia: Is it a possibility to export more of steel wheels? How is the scenario there, market scenario?

Mohan Joshi: The market scenario is fair. There is a slowdown which is coming in. And on top of it, there is a problem, which is coming in from this Red Sea where the freights have again started to go north. And it has disturbed a little bit of supply chain because the transit time has increased by 35 to 50 days anywhere between this.

So clarity is not coming right now. But we anticipate that with the current juncture, INR50 crores, INR55 crores worth of top line on the export side is going to be maintained. And any opportunity, which is going to be coming our way on grabbing some market share, some market territories will not be left out.

Shashank Kanodia: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Kunal from Kitara Capital. Please go ahead.

Kunal: Sir, can you please throw light on the pledge. It was told that it would be totally removed by end of this year. So what is the percentage pledge as of today? And what is expected next quarter?

Mohan Joshi: I'm sorry, I don't have that pledge figure readily available right now. Maybe as I remember it last time, it was around 4%. And the endeavor is to clear that pledge by this financial year. It is already underway.

Kunal: Okay, thank you sir.

Moderator: Thank you. The next question is from Abhishek from Dolat Capital. Please go ahead.

Abhishek Jain: Thanks for the opportunity again. Sir, you have guided export revenue of around INR5.5 billion to INR6 billion in FY 24. You have already done around INR5.05 billion in 9 months FY - 24. So in the next quarter, we'll see only the revenue of around INR55 million to INR95 million. Is it fair, sir?

Mohan Joshi: So you rightly pointed out, and I think I briefed it out in terms of the uncertainty, which is happening. And I still feel that we are running at a pace of INR50 crores as we are in this month. And we with all the uncertainty in front of us, we anticipate this number to be waiting at this rate for coming 3, 4 months. And we hope that we are going to be hitting that number, as you rightly said.

Abhishek Jain: Is it because of the higher inventory at the export market? Is it the reason?

Mohan Joshi: It is not a problem nowadays. I think the problem, as I said, is the Red Sea problem, which is at the Suez Canal, which has happened because of the terror attack. What has happened is that it has moved the freights by almost 250% to 300%. And it has created a lot of uncertainty, which -- because of which this pass-through happens to the consumer, right?

Abhishek Jain: Yes.

Mohan Joshi: So there is a lot of uncertainty, which is happening that which route to take, whether it is to take midway or it is to take via the South African continent. So a little bit of clarity will be needed over the next 10 days or so. And then I think it will be at best INR50 crores that we are going to be hitting. So INR150 for this quarter seems doable.

Abhishek: So it will also impact the margin because of increase in the other expenditure side, what we have seen in the quarter second, quarter third also?

Mohan Joshi: So as I said, there is a INR20 crores worth of freight, which is added to the top line. Similar freight has been paid to the freight forward is what the factor on the other expenditure is. So that knocks off each other and it does not contribute to the EBITDA. That's what I wanted to mean.

Abhishek Jain: Okay. And sir, what is your current gross and net debt of the company in 9 months FY '24?

Mohan Joshi: One second, please. This is year ending -- month ending December end, right?

Abhishek Jain: Yes.

Pranav Jain: December end debt is around INR800 crores, including the short-term and long-term debt.

Abhishek: And what sort of the debt we can increase -- increase in debt we can see in the next quarters?

Pranav Jain: The major increase is on the account of AMW acquisition, we take a debt of around INR100 crores for that acquisition.

Abhishek: Okay. So that total debt would be around INR900 crores at the end of FY '24?

Pranav Jain: At the end of FY '24, the debt will be around INR860 crores to INR900 crores.

Abhishek: And what would be the capex for FY '25, sir?

Pranav Jain: capex of FY '25 is around INR180 crores.

Abhishek: This also includes the knuckles capex?

Pranav Jain: Sorry?

Abhishek: This also includes the knuckles capex.

Pranav Jain: Yes, yes, we have included the knuckle capex of INR150, INR30 crores capex is on account of the general capex or maintenance of existing plants.

Abhishek: Okay. And is there any other capex related with this expansion of the product in the EV side, sir?

Naveen Sorot: No, nothing else, Abhishek. So what will happen is the debt that you will see as of March '24 will be peak. Pranav has quoted somewhere around INR860 crores to INR890-odd crores. Next year, you have capex of around INR180 crores, but you have a cash accrual of around

INR220 crores to INR230 crores. So cash accrual should be good enough to take care of whatever capex requirement which will come next year.

In fact, you will have some surplus to prepaying certain liabilities. And then next to next year, we'll offer you an opportunity wherein you can pay off a substantial portion of your debt.

Abhishek Jain: Okay. So what kind of the debt repayment you are looking from FY '25 onwards, for FY '25. '26?

Naveen Sorot: Normal repayment schedule that we have for the next 3, 4 years is around INR90-odd crores. But looking at the cash accrual, that will give you an opportunity to prepay more than the amount, which is scheduled.

Abhishek Jain: Okay, sir. And my last question on the knuckle side. So what kind of the revenue can we generate from these capacity additions in FY '25 and the longer term?

Mohan Joshi: I think the first capacity is now being put up for prototyping and building up the first base case of 2,000 to 3,000 cars per month. And we anticipate the first phase of expansion to be generating close to INR50 crores' worth of revenue. And in the second phase, which Naveen shared in terms of INR150 crores worth of capex, I think we are anticipating the numbers to be in excess of INR270 crores to INR300 crores in terms of revenue.

Abhishek Jain: Okay. And what would be the asset turnover for the longer term?

Mohan Joshi: Between. 1.5x to 1.7x- 1.8x.

Abhishek: Okay. Thanks. That's all from my side.

Mohan Joshi: Margins in double digits. Maybe, Clarity, we'll try to give you once we near the mass production.

Abhishek: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Aggarwal from DV Investment Advisors. Please go ahead.

Vivek Aggarwal: Sir, one question was on your working capital. Working capital improved from '20 to '23, and then in H1 '24, it again increased and almost INR150 crores of accruals were used for working capital. This trend is going to continue because we will keep paying down your payables? Or how do you see this panning out?

Mohan Joshi: Let us give you a picture on working capital in terms of -- '22, '23 onwards, you want to compare that?

Vivek Aggarwal: Sir, '23 onwards, we can see, for '24, INR150 crores of increase in absolute terms. Primarily, I think because your creditors have been paid down, if I'm not wrong, and some debtors have increased. This is going to be this way. Is it going to increase further?

Mohan Joshi: We'll give you the breakdown of the working capital side, wait.

Pranav Jain: For March '22, the outstanding of INR403 crores. And in March '23, outstanding of INR417 crores on the short-term working capital side.

Vivek Aggarwal: No, no. I'm on the total working capital, debtors plus inventory minus creditors, the cycle of working capital. Not on the debt, the debt I have. I'm on the working capital cycle of the business?

Pranav Jain: Our net cash conversion cycle is 55 days for September '23.

Vivek Aggarwal: Right. So that seems to have increased from FY '23 end. Do you think this trend will continue?

Pranav Jain: 55 days, I think, that increase.

Vivek Aggarwal: Right and therefore, INR150 crores of accruals went into working capital meeting this requirement. Do we see this trend increasing further?

Naveen Sorot: I think from the export side, we are at close to the peak side where we are trying to work it out at the current levels. And I think there is no escalation from the current levels.

If you look at the overall cash conversion cycle for us. So in September, we were somewhere around 55-odd days, that covers your debtors, inventory and creditors. This number was 48 days in -- on March '23. And prior to that, the number was more than 55 days. So the 55 days that we have come across, the reason for increase is, one, there is a substantial increase in exports. So you will recall, last year, the entire year, we've done an export of INR290 crores.

In 9 months, we have already done almost INR500-odd crores of exports. Exports, the debtor days are slightly on a higher side. So the cash conversion cycle has raised by almost 6-odd days from 48, 49 days to 55. And so only it will hover around these numbers. And 55 again is one of the best cash accrual numbers that we have seen in our entire history.

Vivek Aggarwal: Understood, okay. Thank you.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Hi sir. Good evening. Given the top line expectations and the targets you have given, so what is the visibility on EBITDA margins? I understand you said there are some issues you have been seeing on the export front. But you also said that as exports increase on alloy side, there will be -- you will see the margin will benefit. So if you can give us just kind of a ballpark guidance for this year ending and the next year?

Mohan Joshi: I think we clearly mentioned in terms of the top line expectation of INR5,000-odd crores in terms of next financial year. And the matrix, as we speak in terms of EBITDA per wheel, is expected to improve consistently. And given that profile, I think the backward calculation can be done on the base case of Q3 of this financial year or something. I think percentage, I've mentioned it many a times, is not a right indicator because tomorrow, if the raw metal prices dropped by 15%, this EBITDA margin will look like 13.5%.

And EBITDA per wheel is a better way of doing it and looking at the way that revenue contribution from alloy side as a percentage of the total revenue continues to increase. So this percentage will slowly and gradually move towards north. I can't give you a ballpark figure. But it will be fair for us to give you that perspective that we have moved from close to INR240-odd to INR250, now close to INR254, INR255-odd.

So this trend is slowly and gradually moving up. We are anticipating the next leg of revenue growth coming in from the alloy side with the domestic markets doing good with some of the new customers entering and export also improving from the current juncture that we have already reached -- close to INR80 crores, INR90 crores we have already reached. We will reach this financial year. So we anticipate this trend to continue to improve.

Rahil Shah: Got it. So thank you for clarification again and all the best.

Mohan Joshi: Thank you, sir.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: So just wanted to understand on the AMW side, what is the peak revenue potential that we can do and time frame that we can derive and also the payback period expected?

Mohan Joshi: See, from the capacity, I think what Pranav has stated in terms of 6 million to 7 million in terms of blended capacity of the plant for PV, for tractors, for truck, export as well as domestic. We envisage this top line potential to the tune of INR700 crores to INR800 crores as a minimum.

The product mix obviously will vary based on what kind of product is going to be made on this. For -- as I said, for the first year, which is next financial year, we anticipate to the tune of INR60 crores to INR80 crores coming in from this asset as the truck line will start producing the demand shortage -- the supply shortage from our side. And based on the dynamics of the capacities, this asset will be fruitfully utilized to the best of this optimized level.

And we think INR138 crores plus maybe INR25 crores, INR30 crores, maybe INR40 crores worth of additional money which we are going to be pumping in, in terms of upkeeping of the line can be brought back to the company over the next five years, five to six years in terms of a realistic picture.

Shashank Kanodia: Sir, given that you're already clocking...

Mohan Joshi: Also -- Shashank, also I'll try to give you a perspective that imagine a situation that you don't have this asset, and you want to produce say 50,000 worth of domestic truck wheels and you have to do some capex. So you don't have an estimate of less than INR100 crores to be done only for doing this INR50 crores as a base case. So this asset helps you de-risk yourself to do any large capex on the steel side, which is slow in terms of volume growth and will keep you cushioned based on what way the market grows, right?

Shashank Kanodia: Sir, given that you're already doing something like INR2,000 of ASP in the steel wheel side, so doesn't it really logically opine that it's going to be a INR1,400 kind of peak revenue potential kind of an asset?

Mohan Joshi: No, so what happens is out of 7 million, I think 4 million, 4.5 million will be dedicated towards the PV side, where the average valuation will be much lesser. So I mean, what we did is that we didn't do the perfect calculation of each line and all that. I think based on the segment-wise situation, where we are going to have problems, we anticipated this number of INR1,100 to INR1,300 a wheel based on two-wheeler, three-wheeler, four-wheeler, trucks, tractors and exports, a blended mix.

And then we reached this side. Imagine a situation that we only do trucks there and tractors there, and we don't do any PVs there. And obviously, the numbers will be reaching close to INR3,500, to INR5,000, and the situation will change dramatically. But it all depends in terms of the demand scenario where the industry is moving towards.

Shashank Kanodia: Right, sir. Thank you so much, sir.

Mohan Joshi: Thank you, sir.

Moderator: Thank you. The next question is from the line of Satyan Wadhwa from Profusion Investment Advisors. Please go ahead.

Satyan Wadhwa: Could you give -- sorry, you gave some guidance in terms of top line. Could you tell us what we should be expecting in terms of steel wheels in number of units and alloy wheels for next year, for FY'25?

Mohan Joshi: So I think I gave a number of close to $3.5 million to $3.6 million for the alloy wheel side for next financial year, which is '24, '25.

Satyan Wadhwa: Right.

Mohan Joshi: I think on the steel side, we have done a -- can you please give us a minute to just do some plus and minus?

Satyan Wadhwa: Sure, sure.

Mohan Joshi: So on the steel side, we are totally at -- okay, we are at -12.2 million wheels in terms of first nine months. And we did close to 2.1 million wheels in the alloy. And we anticipate this alloy to be at 3.5 million wheels to 3.6 million wheels in next financial year.

Satyan Wadhwa: The so current run rate is about 160 right? Or 16 million?

Mohan Joshi: I'll just give you that run rate. So we'll be closing at close to 160- 162 in terms of steel and you anticipate a 5% kind of a volume growth given that we are anticipating a 5% PV side growth as a number. We can get beaten down on this share of businesses. I think there is a little bit of shift which is going to happen in next financial year, where 2% share of business towards our side will be tilted. So 161 x 1.05, 1.06, 1.07 is the estimate.

Satyan Wadhwa: Right. And you save a INR250 a wheel roughly EBITDA. The way to think about it is not in terms of percentage, but absolute terms, right?

Mohan Joshi: I think with the competitive intensity, we have moved from -- Naveen tells me that we have moved from close to INR160, INR170 to INR250. And INR240 to INR250, I think it is -- and in the year beginning also, I said very clearly that it is very important for us to stabilize at INR250 with competitive intensity because everybody has capacity. Everybody has potential, and you have to fight out that competition without any noise. We've been very successful in doing that till date.

There is a little bit of hidden story, which is lying out in alloy where we are not able to break through to the obvious question of Maruti. And we are hoping that within this month, we should get some good news and we start working on that area. But yes, intent is very clear that we will improve this matrix of INR250 consistently.

Satyan Wadhwa: Okay. Great and all the best.

Mohan Joshi: Thank you.

Moderator: Thank you. Due to time constraints, we will take one last question of Niraj Vajifdar from Nv Capital. Please go ahead.

Niraj Vajifdar: Thank you for the opportunity. Sir, my first question is related to -- you said that you -- there was a freight cost increase of INR20 crores in this quarter. So were there any other one-offs in other expenses apart from this?

Mohan Joshi: No, I think it is to the tune of INR20 crores to be added to the top line and similar amount is getting added towards the expense, which is knocking each other. And obviously, the EBITDA remains at 117, 118 divided by revenue minus INR20 crores.

Niraj Vajifdar: No sir, apart from freight cost, was there any other one-offs to expenses?

Mohan Joshi: Yes. I think INR15 crores, as I mentioned, INR15 crores on account of INR2 per kg kind of an increase, which has come from 1st of October. So that is also one-off -- It's not a one-off, it's a business thing, but it is important for us to understand that. So that top line got escalated by INR35-odd crores because of these factors.

Niraj Vajifdar: Okay. Sir, you had also mentioned that you will be going for debt reduction from next year onwards. So by how much can we expect the debt reduction in FY'25, '26?

Mohan Joshi: As we anticipate that the INR90 crores worth what Naveen has shared in terms of the minimum debt repayment, which is anyway due. Any buffer, it will be utilized because there is no other capex. So will it be utilized to pay the -- repay the debt, the way that we did in last financial year. And we are in that direction. That's not a problem.

Niraj Vajifdar: Okay. Sir, one more last question. If you can give us some guidance on the AMW margins for FY'25 and '26?

Mohan Joshi: I think, very tough to say that. The first intent is to not lose money because, obviously, it's a very large asset, and to make sure that we try to make trustees, which is maybe 15% of the capacity or 20% of the capacity, we should not lose money that is first intent. And margin buildup will -- should definitely not happen in the next financial year. But next financial year, the margin buildup will definitely happen.

Niraj Vajifdar: So we can say by '26 also, we can...

Mohan Joshi: Yes. That's what the intent is that we try to build up INR150 crores to INR200 crores worth of revenue from that side by balancing the plants.

Niraj Vajifdar: Okay. Thanks a lot, sir. That’s it from my side.

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

Naveen Sorot: Yes, I hope we have been able to answer most of your queries, and we look forward to your participation in the next quarter. For any further query, you may contract SGA, our investor relation adviser. Wish you all happy republic in advance, and thank you.

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