STEEL STRIPS GROUP

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Date: 08.11.2024

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

BSE Scrip Code: 513262

NSE Symbol: SSWL

Subject: 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 28.10.2024, 30.10.2024 and 04.11.2024 vide which we had submitted the Schedule of Analyst/Institutional Investor Meet, Investor presentation and outcome (Audio recording), respectively, of conference call with Institutional Investors/Analysts which was held on 04.11.2024 on "Q2 FY25 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**

Kanika Sapra

Kanika Sapra

(Kanika Sapra)
Company Secretary

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"Steel Strips Wheels Limited Q2 FY '25 Post Results Conference Call"

November 04, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 4th November 2024 will prevail."

MANAGEMENT:	**MR. MOHAN JOSHI – DEPUTY MANAGING 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 Steel Strips Wheels Limited Q2 FY '25 Post Results Conference Call hosted by SMIFS Limited.

As a reminder, all participant lines will be in 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 "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Amit Hiranandani: Thank you, Sejal. Good morning and Festive Greetings to everyone on this Call.

On behalf of SMIFS Limited, I welcome you all to Q2 FY '25 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 – Deputy Managing 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.

Before I hand over the call to the Management, I would like to congratulate to Mohan sir on his promotion to Deputy Managing Director.

Now, I hand over the call to the Management Team. Over to you, sir.

Pranav Jain: Yes. Thank you, Amit. Hi, good morning, everyone. Hope everyone is doing well. I hope everyone had an opportunity to go through the "Financial Result" and "Investor Presentation" which we have uploaded on the Stock Exchange and our Company's Website.

During the past half year, our revenue stands at Rs. 2,120 crores as against Rs. 2,178 crores. EBITDA for H1 FY '25 is at Rs. 241 crores versus Rs. 245 crores in H1 last year. Profit after tax stands at Rs. 96.40 crores versus Rs. 100 crores in the same period last year.

Revenue from operation for the current quarter is Rs. 1,095 crores versus Rs. 1,134 crores in Q2 of FY '24. EBITDA is at Rs. 123 crores versus Rs. 127 crores same quarter last year. Profit after tax stands at Rs. 50.20 crores versus Rs. 5241 crores same period last year.

There is an improvement in EBITDA per wheel for H1 as well as Q2. EBITDA per wheel for H1 stands at Rs. 256 per wheel and Rs. 255 per wheel for Q2 FY '25. EBITDA margin has improved to 11.33% versus 11.19% in H1 last year. For H1 FY '25, our revenue mix has been 31% for alloy wheel business and balance 69% from steel business. For alloy wheel rim, sales volume increased by 6% in H1 FY '25 as compared with the same half year last year.

Export volumes have gradually increased this quarter following a decline in the previous quarter due to supply chain disruption, rising global inflation and ongoing conflict in the Middle East and Europe. However, we are now seeing a revival in export activity, and we are optimistic that demand will improve in the coming quarters.

Quarter 2 FY '25 export revenue stands at Rs. 150 crores as against Rs. 177 crores for Q2 FY '24. Overall exports in Q2 FY '25 include Rs. 27.65 crores on alloy wheel business. For H1, export stands at Rs. 273 crores versus Rs. 331 crores same period last year.

For the current quarter, overall debt stands at Rs. 926 crores versus Rs. 1,047 crores in Q4 FY '24, thus a reduction of around Rs. 121 crores.

Last year we introduced the new business line aluminum knuckle. We are pleased to announce that commercialization will begin next quarter, enabling us to start serving our existing customers, including two OEMs with whom we have established agreements. Looking forward, we aim to fully launch this business by fiscal year 2026. We believe this strategic expansion will not only broaden our product portfolio but also strengthen our market position. This product is specifically targeted at the SUV segment where OEMs have greater pricing power. With increasing demand for SUVs due to their comfort, we expect a strong inflow of order in future.

Steel Strips Wheel Limited continue to remain laser focused on the road ahead and are committed to leveraging every opportunity to drive innovation, deepen our customer relationship and solidify our position as a leader in the market. As the industry continues to advance, we expect our performance to grow in alignment.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sridhar from Axis Limited. Please go ahead.

Sridhar: Good morning to the management and hearty congratulations, Mohan ji. My first query is on the exports. Just wanted to understand, you all had given earlier guidance of Rs. 650 crores to Rs. 700 crores for the full year, so is it achievable this year?

Mohan Joshi: See, I think Rs. 650 crores is what we are trying to achieve in this financial year given the global landscape which is there. In the first half I think we have already done Rs. 275 crores. And we feel that Rs. 650 crores look a little tough, it is not unachievable. Given the kind of stretch which is happening in Europe and U.S. in terms of demand slump down, Rs. 650 crores looks a little bit tough. But Rs. 600 crores to Rs. 650 crores anywhere in between is what we are trying to target.

There are two factors to it right now:

One is the current situation of freight, which has suddenly again gone up and because of the Chinese and the Singaporean disruptions, which has created a little bit of uncertainty.

And second thing is, given the situation, which is there in U.S., I feel a lot of uncertainty is there with this Trump and Harris coming into picture. People are expecting a lot of turmoil which is going to be on the policy front.

Once Trump comes in and he starts to roll over a lot of those things which were stopped after he was removed. So, if Trump comes in it's a good news for India, given that his landscape towards China is fairly, very, very volatile.

So, we expect a very, very good situation for India for coming five years, given that Trump wins. And it's a momentary thing which is going to be stabilizing towards this Q3, where uncertainty is going to go out. And if Trump wins, it's very, very good for India.

Sridhar: And sir, generally from other Tier-1, Tier-2 suppliers, they are mentioning that OEMs are in pain, specifically passenger vehicles. So, as we do not cater to OEMs, we cater to the aftermarket, so in the alloy segment we have seen a considerable increase in your exports. How is the outlook for passenger vehicles?

Mohan Joshi: See, from a perspective of total exports, given that the European as well as American markets are down anywhere between 15% to 35%, based on which continent are you supplying. Given that we were at Rs. 635-odd crores last year, and with that kind of a momentum and all the customer orders in our hands, we feel that if we are anywhere above Rs. 600 crores, it's a commendable thing, given the landscape which is happening in the industry. The intent is towards alloy wheels, which you have rightly mentioned that that space is growing, and we are already at a decent space. And we feel that for this financial year 50% growth on alloy wheel export will be a minimum thing which is going to be targeted by us.

Sridhar: And on the domestic front, CV demand seems a bit tepid, and the momentum was also down in the first half. How do you foresee the second half of FY '25 and FY '26? Anything from the OEMs' side on their order book or purchase order, any changes that you see?

Mohan Joshi: So, see, for the first half in terms of truck products, in terms of overall domestic situation, I think the situation was anywhere down between 15% to 16%. I think for the full year the expectation for the industry is a downgrade of 7% odd, and H2 will be a better year given that it is historic over past so many years in terms of this CV cycle to improve in H2, which we have started seeing in the month of October. And we believe that from November end, the situation should again do better. And for the full year, industry degrowing at 7%, we are anticipating that we are going to be anywhere between 1% to 2% down in terms of volumes. The reasons are known in the industry. One is obviously elections, where three, four months of election dilemma was there and a lot of spending cuts were done. The second reason is obviously the heavy monsoons across the nation which are now stabilizing. And I feel H2 is going to be much better than H1 for industry.

Sridhar: So, do you expect high-single-digit or maybe double-digit growth in second half in all segments, like from SSWL side I wanted to understand.

Mohan Joshi: See, what I feel is that industry is trying to cap the number at minimum say 7% odd or so. And for the first half, we have degrown by 16%. We feel that this 16% should end up, if the industry grows at minus 7%, then maybe minus 1% to minus 2% for SSWL. I can tell you that.

Sridhar: And how is the outlook on the tractor segment since we have made various LTAs with various OEMs, so what kind of growth for SSWL in the tractor wheels can be expected for the full year?

Mohan Joshi: See, the industry was talking about a flattish year this year in terms of tractor segment. I think the first half has been very, very good in terms of anticipation of monsoons and good monsoons played out and farm income going up, the minimum wages going up. So, all these things have ensured that we are traveling at close to 12% H1 growth for the domestic market. And we feel that as against the last year's share of business of close to 36%, 37%, we will end up this year at 41%, 42%. So, irrespective of the industry growth, maybe at a flat rate, we feel that we are going to hit the highest number of tractors for this financial year. And that growth could be anywhere between 9% to 10% to 11% for the Financial Year ‘24-'25.

And the trend is very, very aggressive and on this side that first we need to stabilize at 41%, 42% in terms of the industry landscape. At the same time, we have been updating that this segment is towards the export side also where a lot of development is underway right now. And close to three global RFQs are being attended by us to make entry towards two large OEMs of tractor and OTR segment. We believe that the results should be out by December or so. And I believe that in Q4 we will be talking about that.

Sridhar: So, I believe our EBITDA per wheel, which is like around Rs. 250 to Rs. 255, it should push more northwards towards Rs. 260 if the tractors and CV segments play out well for us. I think that is correct.

Naveen Sorot: So, see, that has already started to happen. If you look at H1 current year, we are already at Rs. 256 and this number is versus Rs. 251, which was H1 last year. So, this number has already started to inch upwards. I guess the margins have also increased, if you look at in terms of percentages. And as the mix gets more towards these heavier wheels, this is expected to move upwards.

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

Neeraj Goswami: Congratulations to Mohan sir on your promotion. Sir, my first question is on your aluminum knuckles division. I mean, it is starting from Q3, right, so what is your outlook for this year? And how are you planning to take this business in the coming years, I mean, next two, three years?

Mohan Joshi: See, from a business point of view, it has a similar outlook which is visible to you on alloy wheels, where alloy wheel was having a penetration of maybe 10% odd five, seven years back. And today, we are at 40% of the industry, because of light weighting and because of right quality and various aesthetic features. This is a safety part. And with the pressure which is coming in from the government in terms of CAFE norms and light weighting, plus the electric vehicle kind of penetration, we feel that this industry creates an opportunity of an industry size of close to Rs. 500 cores over the next three, four years. And we have a first-mover advantage where the tie-ups with two of the OEMs have already been done.

Mass production has started from the month of October. And I think it is still at a nascent stage. And Q4 will be when it is going to be at close to 70% of the first phase capacity. Capacity expansion on the knuckle side is already underway, which will expand by the next financial year mid to double the capacity of currently 0.25 million to 0.5 million. And the intention is that we try to grow this business across all the verticals of the customers as well as on the export side to target this industry as a first mover advantage. And to give you a benchmark, I think in the European side, 70% of the knuckles are on aluminum. So, knuckle is one product. There are two other products which are also available along with the assembly of knuckle, which are also aluminum, which is where the next step of forward integration is going to happen from the Company, and we will keep you updated on that.

Neeraj Goswami: Sir, any new customers have you added apart from the 2 OEMs in this business or any proposals?

Mohan Joshi: Yes, there are three more customers where the RFQ negotiations are going on in terms of built-to-print and full-service support, and those are expected to be landing up by January or February in terms of the results. But from the existing customers, I think 100% of the business is with us. And incrementally, these customers are fairly very aggressive towards this stance of taking aluminum knuckles into their vehicles because of the pricing of their vehicles and acceptability. And we feel confident that the first phase itself will be full with these two customers.

Neeraj Goswami: Sir, my next question is on exports. I know in the U.S. you were saying trailer industry was down in last quarter, so how is the situation there? And also, you said some SOP were postponed from your OEM customers, so what is the situation on that front?

Mohan Joshi: So, I don't think that I said any SOP has been postponed from our side. I think globally there is a positive demand outlook, that is first. Second is the policy uncertainty which people are expecting post-result in the U.S. Typically, Trump has a habit of putting taxation for putting America first. And he has done that in the past by putting very extravagant duties against all the nations where China gets support. And people are anticipating similar kind of behavior this year also.

And given that the lead is there for Trump right now in terms of the situation of opinion polls, people have to wait and watch. And post-December, once the clarity is there, then a push of orders will start coming into Q4. And given that Trump comes with a large majority, then we feel that next five years is going to be extravagant where we expect actions against Vietnam, against Thailand, against Malaysia, against all those nations from where it's a quasi-Chinese which is supplying to U.S. and Europe. So, I think it's a wait of one quarter and Q4 should have normalcy restored.

Neeraj Goswami: Sir, my next question is, you have entered the OTR segment, right, so any update? I mean, can you give us an overview on that segment, how is the business going there?

Mohan Joshi: So, from the OTR side, on the domestic side, we are at close to 65%-odd share of business. There are three large customers where the development is happening. These developments are close to one and a half to two years of gestation period wherein we have already invested one year. And mass supplies of certain customers have already started from our mother plant which is in Dappar. The real results will start settling in, in terms of Q1 of next financial year when close to 17 SKUs will see the light of testing and road certification and everything. And I believe that it is a very profitable business, it's not a very large volume business, it's a very profitable business. And given that you have very large supplies which is available, and as an industry it has a potential to build up a Rs. 200 crores, Rs. 300 crores kind of a business for us is where the thought is that we are going to be hinting towards entering into this segment.

Neeraj Goswami: Sir, also in one of your comments you said there is a lot of dumping from Vietnam and Thailand players in the export market, because of which you need to bring down your prices which had impacted your margins. So, I mean is this dumping still happening in the export markets?

Mohan Joshi: Of course, that segment is already impacted. And I think that in every conference call we are saying that close to Rs. 2 crores to Rs. 3 crores of value addition is being lost to match the prices and try to see how we should not lose the business from the existing customer given this kind of a situation which is already underway right now. The good thing which is happening is that the steel prices are falling, so it gives you a little bit of a cushion on the exports to further fight with these nations. And some of the supply stoppages have happened from few of the nations but not entirely. We feel the real action will start happening from January, February when the executive orders will start coming in if Trump comes in. It has a longer haul kind of a play versus this small, small price correction which we are trying to do.

Neeraj Goswami: Sir, updates on your CAPEX guidance, I mean, for FY '25-'26 and where we will be utilizing it?

Mohan Joshi: Can you please repeat the question once again please?

Neeraj Goswami: Sir, your CAPEX guidance for FY '25 and next year FY '26?

Naveen Sorot: I guess the start of the year we have guided for almost a CAPEX spend of Rs. 225 crores. I guess, based on what we have spent in H1, the amount that we will be spending on CAPEX will be lower than what we have guided for. I guess it will be under Rs. 200 crores. And then the entire funding as we have conveyed to the market earlier as well, that the entire funding will be via internal accruals. There will be no addition of external debt which will be taken in our books. And in fact, we have accelerated our borrowing repayments. As Pranav highlighted that we have almost paid off Rs. 120 crores of debt in H1. Another Rs. 100 crores is expected in H2. So, Rs. 926 crores is the total debt which is there in the books as on September end. This number should go down to almost Rs. 825 crores by the time we end this year. And then in next two years we expect to repay almost Rs. 300 crores, which includes the regular repayments, as well as some accelerated repayments that we will do based on accruals.

Moderator: Thank you. The next question is from the line of Amit Hiranandani from SMIFS Limited. Please go ahead.

Amit Hiranandani: Sir, on the aluminum knuckle casting, please help us, what are our internal targets in terms of, achieving the top line and margins for the next three years, please?

Mohan Joshi: For the current financial year, I believe that we are starting with some 2,000 number from the October month, and for the Financial Year '24-'25, I believe close to Rs. 15 crores worth of business will start coming in terms of this financial year. And for next financial year, which is the visibility that the customer is trying to give right now, we expect this number to be between Rs. 75 crores to Rs. 80 crores for Financial Year '25-'26. And next to next year, with the capacity expansion, which is already going on right now, where visibility is fairly strong in terms of the new businesses, we believe that the business is going to be anywhere between Rs. 115 crores to Rs. 120 crores.

Amit Hiranandani: So, I will just repeat, in FY '25 H2, you will achieve Rs. 15 crores, is it right?

Mohan Joshi: Yes.

Amit Hiranandani: And '25-'26 to Rs. 30 crores, you said?

Mohan Joshi: Rs. 65 crores to Rs. 70 crores.

Amit Hiranandani: Rs. 65 crores to Rs. 70 crores. And then Rs. 115 crores….

Mohan Joshi: Rs. 115 crores to Rs. 120 crores. And by the time we are going to be coming into this, I think there are seven RFQs which are under discussion, where the customer is asking for a mega factory to be put up for close to 1 million or 1.5 million kind of capacity, which will start in terms of discussion into next financial year first quarter. Once that is there, then obviously the scale is going to be very different in terms of expectation.

Amit Hiranandani: Right. And sir, in terms of margin, how is the traction over there?

Mohan Joshi: The margin profile is fairly good in this business, but give us this quarter's situation, because these are small orders which are coming in. And let us try to average out in terms of October, November, December, and we will try to give you the highlights in the next conference call. The first margin, I think, from a margin point of view, double-digit margin, that is not a problem. And it is margin accretive for the Company also. But please give us this quarter's performance to be taken up into our hands.

Amit Hiranandani: And sir, we were actually earlier planning to enter into more new products, with castings and et cetera. So, have we finalized anything on that front?

Mohan Joshi: So, as I said, there are two more products which are part of this knuckle, which is the lower control arm and the upper control arm, which is already in the discussion. It's just that, it is a safety product, customer cannot go all out, right. So, the discussions are going on with the engineering and the kit value will continue to increase because the process remains the same. It is the addition of machine that you can do and then potentially you can improve your kit value to close to Rs. 11,000 from currently Rs. 2,200, Rs. 2,300 or maybe Rs. 2,500.

Amit Hiranandani: And sir, on the AMW side, we have adopted a very good strategy of moving our equipments to existing SSWL plants for better utilization. So, what is the progress on that front?

Mohan Joshi: From the AMW side, I think we updated that by this financial year end, the capacity expansion of Jamshedpur will be over and we will be adding up close to 40,000, 45,000 wheels in Jamshedpur to take it up to close to 200,000, 205,000 numbers on a monthly basis. And this will also add economies of scale and, obviously, will help improve the EBITDA profile for the business, given that the economies of scale will help that. And we feel that this year is a consolidation year for CV. And from an industry point of view, the industry has the capability to grow at 5% to 7% every year, given the CAPEX requirement of the country and if it's being done by the Company. But the timing of the same is going to be adopted by the organization to finish it by the financial year end and take advantage of that.

Apart from that, I think we have already also mentioned in the balance sheet that additional debottlenecking of the organization is happening in terms of adding up the capacity of testing, adding the capacity of tool making, adding the capacity of the line balancing in other plants, which is in Chennai, is already happening and along with that in Dappar is already happening. All these activities will start from Financial Year ‘25-'26 in terms of startup production. And this is the best use that we can do to AMW as we speak to help improve the quality as well as the top line of the organization.

Amit Hiranandani: Sir, on the exports front, we had a talk that domestically, we are trying to enter into new geographies and want to add more customers and et cetera. So, any progress on this front, please?

Mohan Joshi: As I said, I think from a tractor and AG OTR kind of a business, which is, say, India is 50% of the market and it's a favorable margin kind of a business and export is fairly very lucrative. But with exports, you have a very large line of range which you need to develop, which is already underway for the past one year and we expect that this exercise is going to continue in terms of expansion of the lines, as well as expansion of the product portfolio. The fruits of the same is already visible in terms of some orders coming into our kitty in this segment from the export side. The real visibility will start coming into quarter one of '25-'26 in terms of order backlog increasing. And this is a continuous exercise to pick up a 5%, 10%, 15% kind of a margin -- sorry, share of business into this export market, which is fairly lucrative from the margin point of view, as well as from a business highlight point of view from global OEMs.

Amit Hiranandani: So, presently, sir, exports is little bit weaker due to macro concerns. So, are we taking any kind of pricing actions to revive some demand over there?

Mohan Joshi: So, pricing action is always a continuous process. I think the intent is to not lose the margin profile completely but keep the customer into focus where we understand their problems in terms of inventory, in terms of freight and everything. So, the best of the pricing is being given to them without giving too much on the margin front. Yes, some margin will be eroded but ensuring that we try to maintain that Rs. 600 crores plus a kind of a momentum and try to wait for the good times to come in when this industry will turn around. And once you turn around, the same customer will help you to move to Rs. 700 crores to Rs. 800 crores. The other side which we are trying to do is on the alloy side, which is where the problem is not there.

So, currently, as I said, that 50% kind of growth is visible in this financial year with the backlog of the orders that we are having. There's a large long-term agreement that we are trying to work out, and this workout is based on our delivery performance to these customers. And we believe that something good will be heard in Q4 of this financial year in terms of this long-term agreement. And ensuring that next year another 50% kind of growth on this export front on alloy wheels is 100% guaranteed. Two of the OEM businesses will start in, I think, Q4 or Q3 end or Q4 first month. And this will ensure that at least 1.5 million kind of a pace is visible into exports, creating it at Rs. 200 crores, Rs. 250 crores kind of a business from the export itself.

Amit Hiranandani: Digging more on the export side, so wanted to understand more, is it a challenge of inventory or the demand itself is lower there?

Mohan Joshi: No, so, you see, across the globe right now, as we speak, in terms of the volume, the volumes are down anywhere between say 15% to 35% based on which customer is this. And out of that, which customer are you hinting in terms of the offset. So, there are a lot of challenges which are coming in from the policy front, as I said, that you don't know whether you import something from China too much, Trump says, okay, all the transit, which is there, I put 250% duty. He has the habit of doing that, he's random. So, people do not want to take that chance. People are saying, okay, let us liquidate our inventory. Let us keep the minimum pipeline running so that the OEM lines are running.

Suddenly, once you start getting reflection by the, I think, January first week will be the result, I think. So, by December end, I think you will get the idea that how the wave is going and how the action needs to be taken by the cost players. So, nobody wants to take a chance. There is a two and a half, three-month kind of inventory which is in transit, and he says, okay, I put a 200% duty on that. The guys will go for a toss, right? So, we believe that by December end, the policy actions will start converting into deliveries and the improvement on the export side for replenishment of the dried-up inventories will start.

Amit Hiranandani: Sir, our cash flows are getting better, like improvement is happening. So, what is the outlook for pre-paying the debt, because our CAPEX is not very high in the coming years? So, any chance to pre-pay the debt further?

Naveen Sorot: So, Amit, that is exactly what we highlighted, that even if you look at H1, we have pre-paid some of the debt. The total repayment stood at Rs. 120 crores, and for the balance H2, we are also expecting another Rs. 100 crores. So, from Rs. 1,047 crores, this number will probably be around Rs. 826 crores by the time we end this year. And for the next two years, we are expecting to pay almost Rs. 300 crores of debt, which will include some pre-payments as well. The normal repayment schedule is almost Rs. 180-odd crores, over and above this, we will be paying almost Rs. 120 crores. And then based on if there is any further improvement in the cash accrual based on businesses, those will also be taken care of.

Amit Hiranandani: Yes, this is very nice to hear, sir. And, sir, I just missed the CAPEX. If you can break down the CAPEX between where we are going to spend it, the Rs. 225 crores?

Naveen Sorot: So, as I highlighted, Amit, this year I guess we will be spending lower than the Rs. 225 crores that we highlighted at the start of the year. There have been some renegotiations which have happened on the project costing front as well. So, we expect this year the amount will be lower than Rs. 200 crores in terms of the overall CAPEX that we will do. A key area remains, one, aluminum expansion that we are doing; second, the knuckle, flow from equipment and the balance payment towards solar panel installations. So, those are the key CAPEX items that we have for current year. So, the overall CAPEX will be in and around Rs. 200 crores. So, it will be lower than what we have anticipated.

Amit Hiranandani: Right. And, sir, lastly on the alloy wheel side, so how is the traction in the domestic alloy wheels? Because we have in between seen some pickup in the styled wheels as well. So, what kind of growth one can assume for the mid-term? And any kind of new model additions we have done in the H1?

Mohan Joshi: So, Amit, I think from an industry point of view, the industry has been very stable at close to 36%, 37% for the past 12 to 15 months. And from the month of say August, September, the industry has picked up and has gone to 41%, 42% of alloy wheel penetration. Is this permanent? Is this something which is sustainable? We will come to know that post festive season, maybe in the month of November and December, we will come to know that.

But to answer your question on the styled wheel, there is definitely a hit which has come in from the styled wheel. But over the past three months, the styled wheel penetration has started dropping and people have started moving from the styled wheel to alloy wheel because the customer may be questioning that I'm paying that money and you are not giving me that alloy wheel.

And given the kind of inventory situation, I think OEMs have also pushed this alloy wheel to all across the customers. So, we feel that the alloy wheel industry, given that the industry grows at 5% to 6% in terms of the passenger vehicle production, we feel that the industry has fairly a capability of growing at 10% to 11%, 12%. Within that, we are maintaining a 30% to 33% kind of share of business across the board.

Maruti is expected to be giving the mass production instructions by Q4 end in terms of their visibility because the vehicle is under testing under various durability testing. And we also believe that Maruti is going to be increasingly, given the kind of supply constraint which they are having from the existing suppliers, will add more RFQs towards us going into Q3, Q4, and Q1 of next financial year in terms of balancing the act.

So, from an alloy wheel side, I don't see any problem coming in, in terms of the demand outlook. As I said, that domestically, we are fairly very, very confident of hitting close to 3.6 million to 3.8 million to 4 million in terms of the demand outlook. 0.5 million is expected very, very clearly from exports. So, first 4.8 million should not have any problem to be sold out.

The other factor is that we need to add debottlenecking exercises within the existing capacity, where we have some ideation to increase the existing capacity of 4.8 million to 5.4 million, which will come into action in next financial year, where line expansion may be seen. And post that, there is a hint which is coming from the OEMs to put up a dedicated plant in the North, which we are trying to work out and let's see how it works out.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, thank you for the opportunity. Sir, I think few quarters back we had mentioned that we were doing some kind of pricing discussion with big OEMs for price increase and that would reflect in our margins. Sir, what is the status of that?

Mohan Joshi: Are you talking about the price correction from the customers that we were talking about?

Madhur Rathi: Yes, sir. Sir, you were in discussion with some kind of OEM, and you had mentioned that in next two to three quarters there will be a definitive --

Mohan Joshi: Yes. So, that price correction has been agreed with the OEM and I think that you will see that correction coming into action in terms of the Q4 end in terms of pricing and margin increase. And these are exercises which are going on with multiple customers at multiple phases and all these exercises are on a routine basis in terms of putting up into action. And we feel that by Q4, some of the critical effects of these margin improvements will be seen into the financials.

Madhur Rathi: And Sir, this margin improvement would be a substantial margin improvement or just like a portion of it --

Mohan Joshi: What typically happens, I will tell you. There could be a margin improvement of say annual impact of Rs. 15 crores, Rs. 20 crores, Rs. 10 crores, Rs. 25 crores, that is one impact. The other factor which we are trying to do is the repricing of the contracts which is now the new RFQs are coming in and the repricing will take its time in terms of the RFQs coming into the system and you putting it higher and trying to rebalance it. It's a one, one-and-a-half-year kind of a process.

But it is very, very clear that margin improvement has to be there wherein the push on the customer will be maintained. And yes, this year has been one of the years where steel prices have dropped. So, every quarter there is a drop in steel prices and there is an inventory based loss which is coming and sitting into the P&L. So, every quarter Rs. 5 crores, Rs. 7 crores get lost because prices have dropped Rs. 4 one quarter, the next quarter another Rs. 4, the next quarter another Rs. 4. So, it's a downward hill which is a part of the business.

But given the fact that this is not going to be always like that and these Rs. 15 crores, Rs. 20 crores that we have lost in terms of inventory in this financial year to stabilize them will be visible into the balance sheet coming into Financial Year ‘25-'26. But as I said, across the board margin improvement is where the work is going from the raw material point of view, from a yield point of view, from a pricing and repricing point of view and from a contract negotiation for the existing deal also. So, the visibility of the same will be visible from Q4 of Financial Year '24-'25.

Madhur Rathi: Sir, so we can expect a 100, 200 basis point increase in FY' 25 because we have repricing as well as internal efficiency as well as --

Mohan Joshi: I don't think 100, 200 basis point is the right expectation. I think we are at close to 11.5-odd something that we are trying to run around right now. But at a scale that we are trying to work out in next financial year, we expect 15, 20, 25, 50 basis point improvement in this, that is what the intent is.

Because see, everywhere pricing is not going to be the challenge, right? When you have CVs as good, because its good, you cannot reprice with them. But yes, PV is a problem, which has been a problem for many, many years. So, if it impacts you and gives you a commendable amount of margin improvement, it is set right for not one year, but for life, right?

Madhur Rathi: Yes. So, this 50-basis point improvement will be purely from margin internal efficiency, and any increase in the commercial vehicle segment or the OTR segment will be over and above this improvement in the margin.

Mohan Joshi: So, economies of scale benefit will definitely play its course. So, I think it is the second year that we are at around that Rs. 4,500-odd crores kind of a revenue where we are just trying to push the volume to cross 20 million and alloy to a newer height, the AG OTR to be on a newer height. So, all these economies of scale benefits will be definitely additional.

Madhur Rathi: Okay. And sir, just a final question, sir. We had a guidance of around Rs. 4,800 crores for this year, as well as some kind of margin improvement of the commercial vehicle or alloy or export segment improved, but it doesn't look like the CV or the export segment will have a lot of jump for this year. So, what kind of revenue and margin can we expect? Because even our October numbers are kind of flat on that front.

Mohan Joshi: So, I think Naveen will answer that in terms of the top line and the bottom-line guidance, because it is not so simple, because raw material is dropping, so Naveen will explain it better.

Naveen Sorot: So, see, if you look at in terms of EBITDA, both in terms of EBITDA per wheel, as well as percentage, both the indicators have improved. If you look at H1, EBITDA per wheel stands at Rs. 256 versus Rs. 251, which was there in H1 last year. In fact, for the entire last year, the EBITDA per wheel stood at Rs. 253. So, there is already an improvement, which is there visible in the EBITDA per wheel.

Secondly, even in terms of percentage, though percentage can give you a misnormal picture based on steel reduction scenario, but still for the sake of the percentage which are there, it is 11.33% versus 11.19%, which was there in H1 last year. So, there is already an improvement, which is there in the EBITDA percentage as well. We believe that we maintain these percentages even going forward, even for H2, and this number should improve further based on the mix tilting more towards alloy and exports. But to give guidance in terms of exact percentage, I guess it will be tough.

Madhur Rathi: I guess sir, on the similar lines of H1 and on the revenue front sir, can we expect it to at least cross the Rs. 4,500 crores mark for this year?

Naveen Sorot: So, if you look at H1, we have done almost Rs. 2,127 crores. Rs. 4,300 crores, Rs. 4,400 crores is what we are eying.

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

Omkar Arora: Hi sir. Good morning. Last quarter, you had guided for around Rs. 2 crores --

Moderator: Sorry to interrupt you, sir. I would request you to please use your handset. Mr. Omkar? Due to no response from the current participant, we will move on to the next participant. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Pranav Jain: Yes. Thank you, everyone for joining the call.

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