WHEELS INDIA LIMITED

"Wheels India Limited
Q4 FY26 Earnings Conference Call"

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WHEELS INDIA LIMITED

ICICI Securities

CHORUS CALL

MANAGEMENT: **MR. SRIVATS RAM – CHAIRMAN AND MANAGING DIRECTOR -- WHEELS INDIA LIMITED**
MR. P. RAMESH – CHIEF FINANCIAL OFFICER -- WHEELS INDIA LIMITED

MODERATOR: **MR. RONAK MEHTA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Wheels India Limited's Q4 FY26 Earnings Conference Call hosted by ICICI Securities. 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. I now hand the conference over to Mr. Ronak Mehta from ICICI Securities. Thank you, and over to you, Mr. Mehta.

Ronak Mehta: Good afternoon, everyone. On behalf of ICICI Securities, we would like to welcome you all to Wheels India Q4 and FY26 Earnings Conference Call. Today, we have with us from the management team, Mr. Srivats Ram, Chairman and Managing Director; and Mr. P. Ramesh, Chief Financial Officer. We'll start the call with a brief opening remarks from the management team and then we'll proceed with the Q&A session. Thank you, and over to you, sir. Thank you.

Srivats Ram: Yes. Good afternoon, everyone, and welcome to Wheels India's Q4 and full year earnings call. We have a presentation. I hope you can all see it. As an overview, we are part of the TSF Group. The TSF Group was formed as part of the out of the family arrangement of the TVS Group. We are about $3.2 billion in terms of consolidated turnover for FY '25.

The group is basically in auto components, dealership and distribution, and financial services. We have strong global connects across supply chains. And we believe in long-term partnership customer connect and focus and work and have very strong corporate governance and sustainability practices.

An idea of the companies in the group.

On the manufacturing side, we have Brakes India, Wheels India, Turbo Energy, Axles India, Sundaram Dynacast and Sundaram Composites. In Distribution, we have Sundaram Motors, Madras Auto Service and India Motor Parts & Accessories. And in Financial Services, we have the Sundaram Finance Group.

Wheels India was established in 1960 and is part of the TSF Group. We are a listed company where the promoters have 58.31% of equity. And our value systems are relationships, integrity, customer centricity and excellence. To give you some overview of the products that we make, tractor and earthmover wheels, aluminium and steel wheels for cars and trucks, windmill related components, air suspension system, fabrications and hydraulic cylinders.

We also have a joint venture with TOPY for making passenger car steel wheels for multinational car companies. We have 10 manufacturing units, 8,400 people and our turnover in the current year is $540 million on the devalued rupee with $141 million of exports, and we are a preferred OEM supplier.

To give you some idea of the timeframe in which we've entered various businesses. If you look at it actually after 2020, we have entered into quite a few businesses. We are also consistent in terms of our strategy over the last few years. This gives you an idea of the products that we make.

We have currently 10 manufacturing plants. And these are our key customers, both in the domestic market and in the global markets. We have been accredited not only by customers, but also EcoVadis, Silver and working for Gold rating. On sustainability, we are quite strong. We have a gold certification from CII GreenCo as well, and we continuously win awards in these areas.

Of course, acknowledgment from our customers is most important. This gives you an idea of some of the customer awards that we have won in recent years. And of course, these are some other awards, both from customers as well as from the government and the industry body.

So briefly speaking, we have -- the way the company is organized, we have 2 segments. One is car, truck, tractor wheels, construction wheels. And then you have fabrications, hydraulic cylinders. And for the windmill sector, we make both fabricated and machine parts as well as doing machining of large castings. The air suspension division is generally around trucks and buses.

A few other points, we are one of the largest manufacturers of wheels for construction equipment and agriculture tractors in the world with about 20% market share in both. And our subsidiary, as I mentioned, is for steel wheels for light passenger vehicles. So if you look at Q4, we had a fairly strong growth, about 23% growth with INR1,471.49 crores of sales and INR400 crores of export.

And if I look at the full year, we've crossed INR5,000 crores for the first time, about 16% growth compared to last year, takes us to INR5,124 crores with INR1,342 crores of exports. This gives you some sense of the improvement. Revenue improvement in Q4 was 23% with a 45% improvement in PAT.

A number of factors -- if I can just comment briefly, a number of factors resulted in this performance in Q4 and also for the financial year, if you look at it, as I said, almost 16% improvement in sales and our PAT has improved by around 31%. A few factors to explain what has happened last year, year of 2 halves.

GST 2.0, turbocharge the domestic industry and almost all the segments, car, truck, tractor, even our suspension business, got a big boost from that. Fortunately, our exports have also been doing reasonably well, and that also saw growth. So we actually had a lot of favorable tailwinds behind us last year.

Added to that fairly stable commodity prices and relative lowering of interest rates over the 12-month period. On the consolidated basis, if you look at it, both on the quarterly side on the quarterly side, for the first time, our consolidated PAT has exceeded INR50 crores. We did INR58.81 crores on INR1,573 crores of sales.

In the consolidation, let me just explain major elements that have consolidated to the stand-alone are our subsidiary, WIL Car Wheels, which is a passenger car steel wheel manufacturer supplying the Indian auto market and also Axles India, which is an associate company, which makes axle housings for the commercial vehicle segment.

So really, if you look at the consol improvement over and above the Wheels India improvement, the other major change was the subsidiary, which 2 years back was loss-making, turned around last year and showed a good improvement in the current year. On the segmental reporting, our Industrial Component division, while the growth in top line was 12%. The EBIT improvement was 91%, largely due to the fact that last year, both the hydraulic cylinder and the fab division were loss-making. But in the fourth quarter of this year, both of them were positive. So basically, that's resulted in a disproportion increase in EBIT. And on a consolidated basis for the year, if you look at it, on even keel but really the fourth quarter was strong

In terms of capex, last year, we basically spent about INR261 crores towards capex, which is both in terms of investment towards the windmill business, aluminium business and a little bit of the off-road businesses and some routine capex and cost savings totalling INR261 crores. And we expect in the current year, it will be between INR280 crores to INR300 crores of capex.

Our debt has been stable to declining. Debt equity has improved. Debt-to-EBITDA has improved and free cash flows are reasonably strong, especially when you compare it to the COVID period and immediate past. Here are some metrics that give you an idea of how we've worked together. On a consolidated basis also, the free cash flows have remained reasonably good.

Our strategies and every time we make a presentation, it's essentially the same because we do believe we need to focus on strategy for at least 5 years before we look at reviewing it. We want to grow export of wheels for construction equipment and agriculture tractors. We have made investments towards that.

We are making progress, good progress on construction, started making progress on agriculture tractor wheel export. We've ramped up -- made investments last year to ramping up machining of large castings for windmills, and that should fructify in terms of business this year.

And we also stepped up both capacity and volumes for fabricated structures for windmills, including the offshore windmills. Hydraulic cylinder business is a business that we will continue to look at growing. The aluminium wheel business is a business that we are ramping up. And the bus air suspension is a business which has grown well last year and will continue to grow and we'll continue to invest there.

Above and beyond that, actually, what we have done reasonably well over the last few years is look at working capital management. We have substantially reduced our inventory and our debtors and we have managed it in reasonable ways so that we enable free cash flows, which allow us to make the investments that are required for our growth.

So largely, we've gone based on internal accruals, holding debt at around the same level and continuously work on cost optimization. As you can see, the results bear out in both the ROCE as well as the return on net worth. Now that is briefly the presentation. I'm open to any questions that any of you may have. Looking forward to the interaction.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Vivek Gautam from GS Investment.

Vivek Gautam: Yes. Basically, I wanted to know what happened to this company, such an old company and sort of was out of the radar for quite some time. What have been the trigger and what is the story behind the recent improvement in the numbers? And are these numbers sustainable? And basically, a few background about the promoters also because visibility about our company is slightly on the lower side somehow?

Srivats Ram: Sure. I'll first tackle the first part of the question, Mr. Gautam. The promoters, the initial promoters of the company was the TVS Group. Now following the family arrangement, the promoters are the TSF group. But essentially, we are from the erstwhile TVS group. And the promoters, the shareholders, it's pretty much a promoter-managed company with active involvement in the management of the company.

If you ask me what has happened in the recent past, basically, post COVID, we came out with a strategy as is there on the slide in front of you. We basically worked on free cash flows, and we identified certain areas that we believe that we can grow faster than the market because these are areas which we are relatively small or relatively new in and where we see the largest scope for growth, because otherwise, we are very much car, truck, tractor business, and we will only grow as much as the industry growth. So we wanted to identify some segments that we can grow faster than market, and that's how we came up with this strategy.

And really, what you're seeing over the last, I would say, last 2 to 3 years, 2 years really because we -- it took us some time to come out of COVID. The last 2 years, consistently, we are sticking to our strategy. And we have been fortunate also that fairly benign commodity prices over the last year. And despite all the chaos, which is around tariffs and all that stuff, we've been able to perform reasonably well. I hope that answers your question.

Vivek Gautam: Yes. A few questions about the new second-generation promoters also taking more interest, Mr. Ram Srivats or sort of that has been?

Srivats Ram: I am -- so I've been in the company for more than 30 years. So I'm hardly a newbie, but thank you. You are in the minority, along with my mother who doesn't classify me as middle age. I do appreciate that. But yes, I've been in the business for 30 years. And so very much part and parcel of the business. And I've been the Managing Director from maybe 15-odd years. So very much in the seat but yes, we refocused our strategy, and that is probably the reason why we are doing well.

Vivek Gautam: Sir, any impact of Middle East prices and rising commodities, crude prices and also on the tariff impact on the U.S. market and EU FTA filing positive for us, sir?

Srivats Ram: Yes. FTAs are too early to call. West Asia prices, of course, we are like everybody else in India, we are affected. The effect is basically -- one is fuel costs have gone up. Industrial fuel costs went up far ahead of what has happened for the citizens of the country. So we had increases even as far back as March last year. So we had a fuel cost increase.

Fuel availability was an issue. Fortunately, now it is only inflation that's an issue, not so much fuel cost. Aluminium, we were buying major quantities from the Middle East. So we had to re-source and also aluminium prices have gone up. So basically, all commodities, steel, aluminium for us -- steel, aluminium, paint, cutting tools, fuel, freight and manpower.

All the elements have gone up. Some of them like material costs are normally -- there's a pass-through with the customer. Others will be negotiated. But given the reasonably high inflationary level of some of the factors of production, there will be some amount of pass-through that will happen.

Vivek Gautam: Okay, sir. And sir, just a few words about the opportunity size before us and the expected growth rate in time to come and our differentiators, if you can highlight because visibility also of our company needs to increase, sir?

Srivats Ram: Yes. See, essentially, as I say, we manage the company based on the values, relationship customer centricity, integrity and whatever you do, do the best that you can. Essentially, this is what drives decision-making, and we are driven by our customers to make improvements. And we are just doing that and following the strategy.

The opportunities were huge. Honestly, we did not have West Asia crisis, I would have been more confident talking about projections and things like that. But currently, if you ask me, the visibility is about 1 month. The visibility right now is fairly low because of the continuously changing environment.

We have really a derived demand with our demand coming from the automotive, truck, tractor and construction segments. We can't throw any numbers in terms of growth. All we can say is that we are on the same trajectory. We are a small boat in a big river, and it depends on how high the tide goes or how low the tide goes. So we will ride along with the economy as it happens.

Vivek Gautam: The opportunity is high as over 2 to 3 years remains large and expected growth rate can be 15%, 20% over a longer time period, sir? So these crises are temporary, hopefully, some solution will come?

Srivats Ram: Yes. I feel the effect of this may be there for a year, at least, that's what at least the experts are saying. But yes, without that, if you look at it, supposing there's no West Asia crisis, we have a lot of opportunities just riding on the points which we have here in front of us. So just these segments alone, I think, will give us enough of growth opportunity where we can definitely do double-digit type of growth over success of the year. So we're looking at a 5-year period, yes, definitely, that's something that we will look at.

Vivek Gautam: Yes. I believe, sir, you need to meet more companies analysts, participate in the analyst conferences also. So that's such a good company of us. Visibility, unfortunately, in front of analysts is sort of low, sir. If you can that would really help us?

Srivats Ram: I appreciate it. We are -- I do recognize the fact that we are normally a bit low. But yes, the point is duly noted.

Moderator: The next question is from Sudhir Kedia from Valuewise. Please go ahead. Mr. Kedia I have unmuted your line. Please proceed. Sir I would request you to kindly check your connectivity and rejoin the queue. We'll move on to the next question from Sarveswara Sharma Chavali an Individual Investor. Please go ahead.

Sarveswara Sharma: Congratulations, good set of numbers. My question is regarding the hydraulic cylinders, sir. My question is this design our own or are we procuring from anybody else, sir?

Srivats Ram: No. By and large, the design is worked on by us along with our customers. So customers basically have requirements, and we basically look at designing cylinders to meet their requirements. In some cases, the design comes from the customer. In some cases, we design it ourselves. So we have both because if you look at the global side of things, very often, we are coming in as a second source or third source or something like that. So there's an existing design, but for domestic customers, we design the cylinder ourselves.

Sarveswara Sharma: In general hydraulic cylinders.

Srivats Ram: Sorry, if I can just complete. We also have a technical agreement with the Korean cylinder manufacturer called SHPAC and sometimes we get business also through them.

Moderator: Sorry, sir, you're not audible. We can't hear you, sir.

Srivats Ram: We are waiting for the investor to ask the question. I answered the question.

Sarveswara Sharma: Yes. I thought you are continuing, sir. Sorry, sir. My another question is actually the seal kit is very critical part of the cylinder. Where from you are getting, sir, are you manufacturing or outsourcing these components, sir?

Srivats Ram: So it varies, sir. Actually, no, we are not manufacturing seal kits. In some cases, we are buying from the authorized supplier for the OEM. So the vehicle equipment manufacturer will specify the seal kit. In some cases, like where we are working with a Korean partner, we get the seal kits from them. So typically, it depends on the customer. The customer very often also specifies the seal kits.

Moderator: We'll take the next question from Sudhir Kedia from Value Wise. Please go ahead. Mr. Kedia please unmute yourself and proceed, sir. I am sorry there was no response again. We'll take the next question from Rohan Ranadive an Individual Investor.

Rohan Ranadive: Am I audible?

Srivats Ram: Yes, we can hear you.

Rohan Ranadive: So my question is around you'll have increased your stake in Axles India, where you'll also have some synergies in the business. But at the same time, there is a lot of -- not a lot, but a reducing amount of debt on the Wheels India balance sheet. So what is the reason for using -- instead of reducing debt, using money to increase the stake in Axles? So what is the capital allocation decision? Just wanted to know more about that and how the future value unlocking can happen for investors?

Srivats Ram: Yes. So essentially, when Axles India was promoted by Wheels India, when it was started, there was capital from Wheels India, Sundaram Finance at that time and then Eaton Corporation. These were the founding promoter companies because Eaton then became Dana, Sundaram Finance became TSF Investments.

Wheels India - reduced their stake in Axles India because Wheels India got a joint venture partner who was not necessarily friendly to outside investments. So that is the reason why our stake in Axles India came down. Subsequently, after COVID, we bought out our joint venture partner in Wheels India and Axles India has now also subsequently bought out the joint venture partner.

So the idea was that Wheels India can get improve its stake, so we are looking at maybe something like 15%, maybe slightly higher, 20%, 25% over a period of time. But yes, there are synergies between the companies. So it's not unreasonable to say that at some point or the other, there may be a way of making the companies closer together.

Rohan Ranadive: One more question that you are guiding for a double-digit EBITDA at some point in the future. But with the headwinds that you mentioned, do you still think it's a realistic number for maybe the next 2 years?

Srivats Ram: Yes. With headwinds, you have to put your head down and move forward. So I guess we'll have to do that. But at the same time, we do feel that the strategy actually, the double-digit part of it will happen from strategy and from businesses which are losing money to become positive. So I think as and when that happens, I think we're probably 2 years away -- 1 or 2 years away from double-digit EBITDA. I don't think it should take longer than that.

Moderator: The next question is from Rajakumar Vaidyanathan from RK Invest.

Rajakumar Vaidyanathan: Can you hear me?

Srivats Ram: Yes. Rajakumar, go ahead.

Rajakumar Vaidyanathan: Sir, just a few questions. So the first one, just extending the question from the previous participant. You mentioned that you are looking at double-digit EBITDA. So currently, you're at about, I think, 8.5%, if I'm correct.

Srivats Ram: Just short of 8% for the whole year.

Rajakumar Vaidyanathan: Yes. So that's a big leap, right? If you're looking at a double-digit number. You said you're looking at it in the next 2 years. Is that what you mentioned?

Srivats Ram: Yes. I think in the next couple of years because it also depends on how the economy is affected by this West Asia crisis, how long it lasts and all that. But yes, barring that, 2 years is probably what it should take.

Rajakumar Vaidyanathan: So in other words, you are saying if volumes happen, then the operating leverage will help you to post better EBITDA numbers. Is that my understanding correct?

Srivats Ram: Correct.

Rajakumar Vaidyanathan: Okay. Got it, sir. And this slide that you are showing on ROCE and RONW, that's a good slide, sir. So -- and it's very nice to see that you have already hit the return on net worth of more than

15% kind of I asked in the previous call. you are mentioning in the slide that these are expected to improve. So can you give some more color as to how much you are expecting this year?

Srivats Ram: Yes. It's very, very difficult to call out a number, but I would look at our ROCE being 18% plus, I would look at our return on equity to be 15% plus. We're working towards a target in terms of where we want the company to be, what we want the profitability to be. And these are more byproducts.

These are more ratios which are byproducts of that. But yes, we are very close to what we would call as a comfortable area, but there are headwinds. So we will have to do a significant amount of work to fight the inflation in the current year. And also judging by the investor calls of our customers, who are also known to your community, they are not super positive about the immediate future. So we'll also need to be slightly cautious bearing in mind that we supply to them. And so their forecast is more relevant to us.

Rajakumar Vaidyanathan: Okay. So you would expect to maintain this return of equity almost -- we have already hit 15.5% in 2025-26. So you would probably kind of be in this level for a couple of years before you kind of improve further?

Srivats Ram: We hope -God willing -- a lot of it is dependent also on how the external factors play, assuming nothing too adverse and assuming that the Indian economy continues to move at a reasonable rate of growth, I think that's a reasonable assumption.

Rajakumar Vaidyanathan: Okay. Got it, sir. And lastly, one housekeeping question, sir. In the cash flow, I see almost INR26 crores of line item against provision for bad debts vis-a-vis almost INR2 crores, INR3 crores for the previous year. So any reason for the spike in the current year?

P Ramesh: It's not a provision for the bad debt, INR26 crores. Mr. Rajakumar? So can you just see it again? I mean there is nothing like a provision of INR26 crores for bad debt.

Rajakumar Vaidyanathan: In the cash flow, if you see provision for inventory and doubtful debt, INR26.16 crores?

P Ramesh: The inventory provisions are higher, though it is grouped together. And inventory provisions are higher because a company has adopted a more stringent rule for provisioning. As a consequence, the provision for inventory has been higher in this quarter as well as for the whole year.

Srivats Ram: We followed a principle where we look at very similar to an ECL applied to inventory where we currently have a policy where after 3 years, the inventory is completely provided for, but we now follow something where after 6 months after 1 year, after 1.5 years, there's a gradual phased provisioning. So this is a policy that we kind of introduced in the third quarter of FY '26. And that is kind of what is reflecting in this.

A lot of it will be like a onetime hit. Subsequently, as you convert that inventory into sale value it will reflect in the profitability. It's a conservative view that we have taken in terms of inventory management, largely driven by the fact that we also want to improve our cash flows. And to signal to the businesses that they need to control the inventory, we have introduced this provisioning.

Rajakumar Vaidyanathan: Okay. Got it, sir. And sir, I have one more question. Can I ask?

Srivats Ram: Yes, please.

Rajakumar Vaidyanathan: Okay. Sir, the question is we saw a significant rupee depreciation in this quarter. So I just want to know how much upside we got due to that? And also on the steel prices also, it kind of increased in the last quarter. So any timing difference on that you would have held -- I mean, you must have had a low-cost inventory. Is that helping you in terms of better margin in this quarter?

Srivats Ram: Mr. Rajakumar, I only wish that is true. Unfortunately, the steel people are a lot smarter than us, so they don't allow us to run up high inventories ahead of the increases. So we don't really get a benefit from that. By and large, yes, if there's a significant increase in steel price, normally, there will be some impact in the immediate quarter. But we don't think that over the longer term, we are able to get a complete pass-through on material cost. I don't think that's an issue.

On the currency side, while you may get immediate benefit of any sudden devaluation of the rupee, there is also a process of sharing currency gains with customers over a longer term. There's a lag effect in terms of that. So we don't actually get any sustainable advantage from devaluation.

Rajakumar Vaidyanathan: Okay. So this quarter, since we saw a significant depreciation, so is it fair to assume that some margin upside we are seeing due to that as well?

P Ramesh: The devaluation of rupee had an impact marginally on the overall profitability. But we also import and we also have some forward covers because we don't know which direction the rupee would go. So it is not the entire devaluation would come as a bottom line thing. So in the current quarter, we had a profit of about INR4 crores as a net thing on the forex. And for the whole year, it is about close to INR10 crores as forex gain.

Rajakumar Vaidyanathan: I am looking forward to Wheels India getting to double-digit EBITDA in the years to come.

Moderator: The next question is from the line of Dev Mehta from Unique PMS.

Dev Mehta: Yes. Am I audible?

Srivats Ram: Can you increase your volume, sir?

Dev Mehta: Is it better now?

Srivats Ram: Yes, much better.

Dev Mehta: So I just wanted to check whether we have a non-core land bank with us?

Srivats Ram: We don't have a non-core land bank. We do have a land bank which we are currently not occupying we don't have any spare land as to say that we have land that we don't know what we want to do with. There's nothing like that.

Dev Mehta: Fair enough. So -- but we don't have any plans to monetize that, right?

Srivats Ram: No.

Dev Mehta: Okay. And sir, with respect to export as a split of our total top line, what are we going to see in FY '27 or FY '28? Any direction on that?

Srivats Ram: Our exports, we expect will continue to grow. So if you look at last year, it was 26% of our sales. Last year, we had very strong domestic growth. So despite the strong domestic growth, we were able to grow our export from 25% to 26%. So I would say that there will be growth in FY '27, but probably more growth in FY '28. Geopolitics and all that is happening. So our customers are affected by that. But as of now, it looks reasonably okay unless things deteriorate.

Dev Mehta: Fair enough. And sir, if you can just quantify the acres of that non-core land and also maybe current market value per acre?

Srivats Ram: I don't know the market value of the land, but the land is about 30 acres on the Chennai-Bangalore highway.

Moderator: The next question is from Chetan Phalke from Tirthan Capital.

Chetan Phalke: Sir, over the last 3 years, we have done capex in various divisions like wind machining, even our Mambattu plant and everything. So with this capex falling in place, what is the optimum revenue potential of the company? Let's assume what we utilize our existing assets to its fullest?

Srivats Ram: Yes, you need to make some incremental investments. But I think I answered this question in the last investor call, I don't recall exactly, but I think INR6,500 crores or so is what we said. But we will continue to invest. So I would probably say, yes, about INR6,000 crores to INR6,500 crores.

Some of the areas like notably cast aluminium wheels, we need to add more equipment so that we maximize on certain items like paint plant and utilities and things like that. But yes, I think something like that is clearly visible out of existing investments in existing plant. No new plant. That is no new site, let me put it that way.

Chetan Phalke: Okay. And sir, with respect to our expansion in global markets or exports per se, a lot of these European or Japanese companies are looking for Indian partners or JV partners either to enter India, manufacture from India and then support their global operations or either help them manufacture globally as well. So any of such opportunities which are opening for us or what's happening on that front, if you can just?

Srivats Ram: We are actually already in that. For example, if you take the windmill industry, most of our supplies go to European manufacturers who have module assemblies in India, which are exported. We also supply to Europe directly. We, as a matter of fact, do an assembly in Denmark to supply some of the customers there.

So it is -- especially for the windmill business, Europe is a big part of it. We have European customers also on the automotive side. So it is definitely something that is part of our strategy.

And I do believe that we have some amount of alignment with some of those customers going forward as well.

Chetan Phalke: Okay. Okay. Because last year, I think we formed a subsidiary -- a German subsidiary. So I was just wondering, I mean, if you can just help us understand what's happening there or what are the thoughts on that front?

Srivats Ram: Yes. So currently, it is more sales, marketing and support type of functions, which are coming out of the subsidiary. We also have a subsidiary in U.S, also recently, we are appointing a country manager. And we believe that by having a local presence, we can also generate more business.

So that will be -- probably going forward, the way we would be initially doing that. But there is pressure also to have as they call it, India Plus One manufacturing strategy. And we are contemplating whether it's possible to, in a cost-effective way, add capacity in those geographies more to answer de-risking questions that the sourcing guys ask us.

In some cases, we are collaborating with other manufacturers in other countries where we are each other's de-risking source. But in some cases, we may have to set up capex at some point of time overseas. It is not part of the capex that I mentioned here. But at some point, we may have to do that. And if we do that, we will do it in a cost-effective way so that it makes financial sense for us.

Chetan Phalke: Okay. And sir, if you can talk about a bit on our cost controls or changes in cost structure going forward, any re-location of our manufacturing facilities from high cost to low-cost locations or anything? Because most of the margin expansion from what I hear is going to come from the volume growth or revenue growth. But anything on the cost side that will also contribute to this margin expansion?

Srivats Ram: Yes, we are looking at consolidating a number of plants. So for example, in the air suspension business, we had 2 plants. We bought some land next to one of the existing plants and moved the second plant into this plant so that we get savings. Otherwise, we were paying rent in that facility. So we are open and are looking at opportunities where we can move out of rented facilities into own facilities.

And by and large, we will look at consolidation of plants to the extent possible unless there is a cost -- there is a site which improves our cost structure and opportunities by being in that site. Either it is customer-facing and so you get additional business because of it and/or you get cost savings in terms of freight cost spending there.

Moderator: The next question is from Ankur Agrawal from RC Business House Private Limited.

Ankur Agrawal: Sir, as you said double-digit margin within next 2 years. So what will be the top line in that timeframe?

Srivats Ram: Top line will depend on 2 things. One, it will depend on commodity prices because if the steel price and aluminum price goes up, our price also goes up and that pushes up top line. Second thing is it depends on how the Indian economy grows. See, we've been very fortunate that the last 2 years, we've had almost 7-plus percent growth in the Indian economy, fairly strong growth in India vis-a-vis the rest of the world.

Now with this West Asia crisis, how much growth will actually happen this year in India and how will it be next year, will actually determine how we grow, because we are very much a derived demand. Our customers depend on the economy growing, for them to grow. So we will grow as and when the economy grows. So it's very difficult to put a time line because I don't -- I think even projection for India's growth every month, there's a different number which is being thrown up by the experts.

Ankur Agrawal: Okay. And sir, your top line growth from the -- for March quarter is 15%, but other expenses grown by 40%. Can you throw some light on that?

Srivats Ram: Yes. The other expenses growth is really your other colleague, Mr. Rajakumar Vaidyanathan had asked this question. We've actually made a very fairly aggressive provisioning on inventory where we are doing a kind of phased inventory provisioning where inventory, which is more than 6 months, there is a certain amount of provision, more than 1 year provisioning is so much, more than 1.5 years, more than 2 years. So we have a phased provisioning.

It is more a onetime provisioning. It is not as if all this is bad inventory. But as and when those get converted, it will add to the profit of the company. But we want to actually drive inventory reduction within the company, and that is actually the reason why we have this aggressive inventory provision.

Ankur Agrawal: That means the next quarter that other expenses will not like that?

P Ramesh: See, I'm Ramesh here. See, apart from this, there are other reasons for the other expenses increase because from 1st January, CBAM was introduced in Europe. So one of our products which we export to Europe has a CBAM tax liability, which is provided and it is booked under other expenses.

And the other thing is that we also have an assessment of the fixed assets and some obsolescence have to be provided, which is again a onetime impact, which is also provided. So these are some of the major things. And we have also provided for certain warranty expenses for the windmill business in Europe, which are -- some of these are one-off and some of these could be coming in the subsequent quarters to a lesser extent.

Srivats Ram: Like CBAM will continue because as and when we make exports to Europe, we have to make the provision for CBAM.

Ankur Agrawal: Okay. And can you share the breakup industry-wise, how much your sales from personal vehicle and from commercial vehicle and tractor industry?

Srivats Ram: Sure. We can do that. Would you like it for fourth quarter or you want for full year?

Ankur Agrawal: Fourth quarter.

Srivats Ram: So fourth quarter CV is 22%, tractor is 16%, passenger car, --, 14% to 15% is passenger cars. Construction wheel is 17%, fabrication is about 14%, cylinders 5%, air suspension is 10%.

Ankur Agrawal: Okay. Then where we see the growth from which industry more?

Srivats Ram: It depends on which industry grows because honestly, last year, even in the first half, we never expected industry to grow in the second half. The government intervened with GST 2.0, suddenly everything took off. So -- and even our customers, if you look at Tata's or Mahindra's, who have both been in the news recently, they've been very guarded about the growth in the coming year. So we'll be kind of governed by what they do. So as they grow, we will also grow.

Moderator: We'll take the next question from Shubham Jain from NV Alpha Fund.

Shubham Jain: Am I audible?

Srivats Ram: Yes, Mr. Jain.

Shubham Jain: I had 2 questions. My first question was on the windmill business, for which we've invested about INR90 crores in terms of capex. Just wanted to understand how big can this business be for us in the next couple of years? What's the kind of tailwinds we're seeing in terms of outsourcing more to India in this piece of the business specifically?

Srivats Ram: Yes. So there are 2 parts of it. If you look at the INR90 crores investment, first of all, you have to understand, sir, that the investment made like last year will come into play only this year. There's a lag because the equipment is all fairly huge, as I mentioned even in the last meet. So it takes about 12 months really for the equipment to come and with commissioning maybe 12 to 15 months.

So we do feel that in the machining side of the business, there is a lot of opportunity which is there. We are co-located with a large casting manufacturer. So we are working along with them, of course, with the windmill customers, but also looking at other segments which require such large machine castings. And we believe that company is currently doing about, say, 3,500 tons a month. And they believe that over a 3- to 4-year period, they'll go to 10,000 tons a month. It's a conversion business. So the profit is much better than the Wheels India profit profile because it's on conversion.

Srivats Ram: Sorry, Sales value will be less because it's conversion, not material.

Shubham Jain: Understood. Understood. Sir, just a follow-up on this. The company that you mentioned which they co-located with has done a massive expansion in December '25. So like you mentioned in this 3-, 4-year period, they go to 3,500 to 10,000. Are we the sole supplier for the machining part of it?

Srivats Ram: About -- let me say about 85% to 90% is us.

Moderator: We take the next question from Chetan Phalke from Tirthan Capital.

Chetan Phalke: **You** just mentioned that we have some excess land on Chennai-Bangalore highway. Don't we have any plans to monetize it, I get that. But just one small query. Is it an urban land? And is it viable for manufacturing in future, if at all?

Srivats Ram: We are on a lot of rented premises. So the long-term plan is to reduce our engagement in rented facilities and move into an own facility and consolidate operations from a number of different sites to one site so that we get both scale and efficiencies. So that is kind of what that land parcel is kind of earmarked for. We are not planning to do it this year. And even if it happens, it will happen in a phased manner as there are ongoing sites that have to be relocated here.

Chetan Phalke: Okay. So this will be more for internal adjustments or internal use case, this particular land parcel?

Srivats Ram: Correct.

Chetan Phalke: Okay. And sir, I think amongst our many manufacturing locations, the Chennai Padi locations from what I understand is a pretty old or high-cost location. Any plans there for that relocation of that facility?

Srivats Ram: Not at the moment.

Moderator: Sir, can we take one more last question for today?

Srivats Ram: definitely.

Moderator: Ladies and gentlemen, this will be the last question for today from Rajakumar Vaidyanathan from RK Invest.

Rajakumar Vaidyanathan: Can you hear me?

Srivats Ram: Yes, Rajakumar, go ahead.

Rajakumar Vaidyanathan: Just 2 questions. So I just want to know what is the capex plan for financial year2026-27? And what is the guidance on the finance cost on these numbers?

Srivats Ram: On the finance cost as an interest rate, what -- I didn't understand the second question.

Rajakumar Vaidyanathan: Absolutely. I think you were finance is almost straight line compared to last year. It's more or less same number?

Srivats Ram: So 2 things. One is the capex approved for the Board is about INR280 crores at the moment. And on the finance cost, maybe Ramesh, you can answer, but one of the things also depends on what happens on interest cost. RBI have not made any change at the moment. Given the inflation, we have to see what happens. So just caution on the interest cost. But Ramesh, you can go ahead.

P Ramesh: See, the present interest cost is around INR26 crores, INR27 crores a quarter, totalling about INR111 crores for the whole year. And I mean our operations are expanding, and we are able to hold the interest cost broadly at the same level. There was an inflation of about less than 2%.

But if you see the recent news, there is a lot of people who say that on the June meeting, MPC meeting. There could be a repo rate increase. So if there is a repo rate increase, then probably to that extent, it will have an impact. I don't see that as a major impact, but it would marginally kind of push up our interest cost from the present level of INR110 crores, it will marginally go up.

Rajakumar Vaidyanathan: Okay. No, but it is nice to see that the finance cost is kind of remaining in steady state despite good increase in your turnover. So is it due to better working capital management? Or what is driving this?

Srivats Ram: Yes, we've reduced all elements. We've reduced the inventory, I think, from 76 to 56 -- just one second, Mr. Rajakumar, let me give you actually correct numbers. So we've reduced our inventory from 76 days to 63 days. We have reduced our debtor days from 61 to 54. And the creditor days are pretty much the same.

Rajakumar Vaidyanathan: Yes. That explains. It's really nice to see all the cylinders are firing.

Srivats Ram: I think good fortune, God's Grace, little bit of luck.

Rajakumar Vaidyanathan: Okay, sir. So all the best for the next year.

Moderator: Sir, we have a few text questions. I'll just read out them. You can quickly answer them as well. We'll take two to three text questions. The first question is from Ajit Darda from Nirzar Enterprises. And the question is, considering good cash flows and multiple tailwinds in the industry like GST 2.0, are we considering any inorganic or organic expansion in our business?

Srivats Ram: Yes, organic expansion is the capex that we are doing. On the inorganic expansion, not immediately, but I did mention that if we are looking at an overseas location in the medium term, we would either look at greenfield or be open to brownfield as well, which would be acquisition. Sorry, go ahead, I'm done.

Moderator: We'll be taking the last text question from Nishit Khatri from Aureus Capital. And the question is, what is our current capacity in steel and aluminium wheels? And what can be the capacity going forward?

Srivats Ram: So it varies from segment to segment. So let me give you sense of the way we count it. So if you take passenger car, steel wheels between us and our subsidiary, if I look at it combined, I think Wheels India has got a capacity of about 4 million and the subsidiary has got a capacity of about 7 million. So about 11 million to 12 million is the capacity. We are adding capacity in the subsidiaries, so it will go to maybe 13.5 million up to 14 million. So there's some expansion there.

We are trying to add capacity in a way where it's flexible to make multiple products because we don't know which industry will go up, which industry will come down. So to that degree, I think even on the tractor side, take the tractor industry, if you count it in terms of the larger wheels as opposed to the smaller wheels, we have a capacity of 50,000 a month. And we'll probably increase that by maybe 10%, 15%, but largely through productivity improvement and things like that.

Commercial vehicle space, if you look at it, we have a capacity -- including the light commercial vehicle, if you look at it, we have about 250,000 capacity and we'll probably look at increasing that to 300,000 capacity. In aluminium wheels we currently have a capacity of about 42,000 per month.

We are increasing it -- in a few months we are increasing it to 60,000 and then by half year, we'll increase it to 80,000. And we are contemplating whether we need to increase it to 100,000 or 120,000 in the next year. So broadly -- and on construction wheels, we have a capacity -- on the medium to heavy duty, we have a capacity of about 16,000 wheels. We will not really add capacity, but just do productivity improvement. In the light construction wheels, we have a capacity of about 25,000 to 30,000 depending on the mix. So this broadly covers capacities.

Moderator: Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference back to the management for closing comments. Thank you, and over to you, sir.

Srivats Ram: Thank you all for joining the call. We have personally learned a lot through our interactions with you, and it is something that we look forward to. Of course, this time, we had good results. So it made for a decent interaction, but we always look forward to feedback from investors who can probably guide us and highlight areas for improvement that we haven't thought of already.

We are fairly consistent in the way that we work, and we will continue to make investments so that we can grow our company at the same time, work on our core competencies to see how we can take it forward on the constant strategy that we have spelled in front of us. Thank you very much, and look forward to our continued interactions.

P Ramesh: Thank you.

Moderator: Thank you, sir. Thank you, members of the management. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us, and you may exit the meeting now. Thank you.