

Steel Strip wheels Ltd. (SSWL)

Nifty: 21454

CMP: INR 274

Target Price: INR 351

Automobile and Auto Components

Steel Strip wheels Ltd. (SSWL) reported net sales of INR 11,103Mn in 3Q FY24 (~18% increase on YoY basis) and PAT of INR 595 Mn (~36% increase over YoY basis). EBITDAM excluding other income stood at 10.5%, declined on YoY basis. This decline is majorly due to increase in other expenses which by 9% primarily due to heightened freight costs attributed to the Red Sea issue. The substantial increase in freight costs was successfully passed on to clients, contributing to the overall top line. Further, there was an increase in steel prices by INR 2 per kg from October 1, and this increased the top line by INR 150 Mn approx., which further impacted the margin in percentage term. We expect the margin to improve with the help of increasing alloy wheel production and better exports. SSWL acquisition of AMW increased the company's debt by INR 1,000 Mn. The company export segment in Q3FY24 has grown 179% in revenue on YoY basis. We expect this export growth to continue, and we see exports of INR 5,500 - 6,000 Mn for FY24.

Export Surge Fuels Optimistic FY25 Growth Outlook:

In Q3FY24 exports have grown 179% on YoY basis in revenue. This is due to improving demand scenario. The momentum should continue in FY25 as company sees huge potential for alloys exports. The phase-1 expansion of alloy wheel production capacity, reaching 3.6 million units annually, is set to commence in February 2024. The full capacity of 4.8 million units is anticipated to be operational by Q2FY25. Currently, the company holds orders for approximately 3.6 million units, with potential growth to over 4 million units in FY25. This optimistic outlook is attributed to Maruti issuing RFQs for alloys and strong support from export activities.

Continuous EBITDA Advancement: Promising Growth Trajectory and Sustainable Momentum Unveiled:

In Q3FY24, EBITDA Margins was at 10.5% as compared to 11.5% in Q3FY23 and 11% in Q2FY24. This was due to heightened freight costs attributed to the Red Sea issue and increase in steel prices in the month of October. However, SSWL saw a notable increase in EBITDA/wheel, reaching around Rs. 252 compared to the previous quarter's Rs. 243 and Rs. 240 in Q4FY23. The management is confident in sustaining profit margin growth, emphasizing product premiumization. This is driven by the expansion of the alloy wheel business, increased exports, a rising market share in electric motor hub wheels, and the addition of AL knuckles to the sales mix. With

a dedicated focus on operational excellence, the management targets a medium-term EBITDA/wheel margin between Rs. 250-260. However, achieving this goal involves a careful balance, as positive contributions from operational efficiencies may be offset by start-up costs related to the AMW facility.

Other Highlights

- **AMW Auto Components:**

Having acquired AMW as a 100% subsidiary, a payment of approximately Rs 1.38 billion settled the acquisition in full. The asset is projected to be operational within the next 4-5 months. The enhanced capacity will cater to the CV industry, exports, tractors, and passenger vehicles. Positive EBITDA Margin is anticipated from FY26 onwards.

- **Capex:**

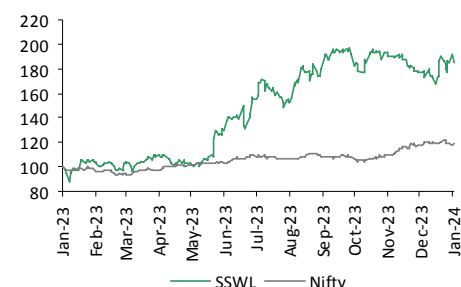
Total capex would be of Inr 4700 Mn in FY24 which includes AMW acquisition, Knuckle casting project, Alloy wheels capacity expansion and maintenance capex, etc. For FY25 Management has guided a capex of Inr 1800 Mn.

- **Tax Rate:**

The company has moved to the new Income tax regime wherein the effective tax rate will be at 25% from Q4FY24 onwards against 33% in earlier periods.

Shareholding (%)	Dec-23
Promoters	61.91
FII's	6.07
DII's	2.68
Others	29.18

Relative Price Performance



Key Data	
BSE Code	513262
NSE Symbol	SSWL
Bloomberg Code	SSW IN
Reuters Code	STWS NS
Shares Outstanding (mn)	156
Face Value	1
Mcap (INR bn)	34
52 Week H/L	299/128.5
2W Avg. Qty.NSE	595,921
CMP	274
Beta	0.74

(INR mn)	FY22	FY23	FY24E	FY25E
Net Sales	35,600	40,405	47,720	55,357
Growth (%)	103.49%	13.50%	18.10%	16.00%
EBITDAM(%)	12.72%	10.96%	11.37%	12.67%
Reported PAT	2,055	1,938	2,644	3,653
PAT Growth(%)	317.2%	-5.7%	28.7%	38.2%
Adj. EPS (INR)	13.2	12.4	17.0	23.2
P/E (x)	61.2	11.9	12.9	9.4
EV/EBIDTA	28.3	6.2	6.9	4.9
Net Debt/Equity	0.7	0.5	0.3	0.1
RoACE (%)	27.0%	24.4%	28.1%	31.7%
RoANW (%)	24.2%	18.6%	21.0%	23.3%

Automobile and Auto Components

Guidance:

- Management has guided top line to be in range of Inr 50,000 Mn for next financial year.
- Company expects 20% growth in alloy wheels for next two years and expects steel wheels to grow at 3-5% growth rate in domestic PVs.
- In terms of exports, management projects revenue to range between Inr 5,500 Mn and Inr 6000 Mn for the current fiscal year. Looking ahead to the financial year '24-'25, management anticipate a significant growth in this segment, with expected revenues in the range of Inr 7,500 Mn to Inr 8,000 Mn.

Outlook

Positioned for robust growth and heightened profitability, the company anticipates substantial expansion driven by diverse growth drivers. We expect Volume/Revenue/Ebitda to grow at CAGR of 11%/16%/23% respectively over FY25E. The ongoing strategic shift towards higher-margin alloy wheels and export-led growth further bolsters this outlook. With an expanding product portfolio, including the introduction of Aluminium Steering Knuckles and the augmentation of the 2W electric motor hub-wheels business, coupled with a focused approach to meet export demand in the US and Europe, the company is well-positioned for sustained success. Given these prospects, we maintain a BUY rating with a target of Rs 351, valuing the stock at 15x its FY25E EPS of Rs 23.

Quarterly Financials (Standalone)

INR Mn	Q3 FY24	Q3FY23	Q2FY24	% Chg (YoY)	% Chg (QoQ)	9M FY24	9M FY23	% Chg (YoY)
Revenue	11,103	9,384	11,337	18.3	-2.1	32,884	30,356	8.3
RM Cost	7,160	5,901	7,472	21.3	-4.2	21,381	20,049	6.6
Employee Cost	899	739	896	21.7	0.4	2,677	2,052	30.5
Other Expenses	1,877	1,666	1,725	12.7	8.8	5,285	4,912	7.6
Total Expenditure	9,936	8,305	10,093	19.6	-1.6	29,343	27,013	8.6
EBITDA	1,167.1	1,079	1,245	8.2	-6.2	3,541	3,344	5.9
Depreciation	225	202	225	11.3	0.1	674	605	11.5
Other Income	17	20	30	-18.1	-43.6	89	57	55.3
EBIT	959	897	1,049	6.9	-8.6	2,956	2,796	5.7
Interest	251	220	260	13.9	-3.6	747	609	22.7
Exceptional Items	-	-	-	-	-	-	-	-
PBT	708	677	789	4.5	-10.3	2,209	2,187	1.0
Tax	113	239	265	-52.9	-57.5	613	722	-15.0
Profit After Tax	595	438	524	35.9	13.5	1,595	1,465	8.9
Minority Interest								
Share of Associate				NA	NA			
Equity	157	157	157			157	157	
Face Value								
EPS	3.8	2.8	3.3	36.2	13.8	10.2	9.3	9.1
% of Sales				bps	bps			bps
RM Cost	64.5	62.9	65.9	160.9	-142.4	65.0	66.0	
Employee Expenses	8.1	7.9	7.9	22.2	19.6	8.1	6.8	138.2
Other Expenses	16.9	17.8	15.2	-84.6	169.3	16.1	16.2	-10.8
EBITDAM Excl Other income (%)	10.5	11.5	11.0	-98.6	-46.5	10.8	11.0	-24.5
EBITDAM (%)	10.7	11.7	11.2	-105.3	-57.6	11.0	11.2	-16.4
PATM (%)	5.4	4.7	4.6	69.5	73.7	4.9	4.8	2.5

Financials

Income Statement

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Net Sales	35,600	40,405	47,720	55,357
Net Sales Growth(%)	103.49%	13.50%	18.10%	16.00%
Cost of Goods Sold	21,871	26,636	29,470	34,058
Employee Cost	2,187	2,837	2,951	3,098
Other Optg. Exps.	7,014	6,504	9,872	11,188
Total Optg. Exps.	31,072	35,977	42,292	48,345
EBITDA(excl OI)	4,528	4,428	5,427	7,012
EBITDA Growth(%)	122.22%	-2.20%	22.56%	29.20%
EBITDA Margins(%)	12.72%	10.96%	11.4%	12.67%
Dep./Amortization	769	804	813	874
Other Income	130	124	136	150
EBIT	3,889	3,748	4,750	6,288
EBIT Margins(%)	10.93%	9.28%	9.95%	11.36%
Interest Expense	854	835	803	835
Exceptionals	0	0	0	0
EBT	3,035	2,912	3,947	5,453
Tax Expenses	981	974	1,302	1,799
PAT	2,055	1,938	2,644	3,653
PAT Growth(%)	317.2%	-5.7%	28.7%	38.2%
PAT Margins (%)	5.8%	4.8%	5.5%	6.6%

Key Ratios

Y/E	FY22	FY23	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	13.2	12.4	17.0	23.2
Adj.EPS	13.2	12.4	17.0	23.2
CEPS	18.1	17.6	22.2	28.8
DPS	3.8	0.8	1.0	1.4
BVPS	61.0	72.7	88.7	110.5
Return Ratios(%)				
RoACE	27%	24%	28%	32%
RoANW	24%	19%	21%	23%
Liquidity Ratios				
Net Debt/Equity	0.7	0.5	0.3	0.1
Interest Coverage Ratio	4.6	4.5	5.9	7.2
Current Ratio	1.0	1.0	1.1	1.3
Quick Ratio	0.0	0.0	0.2	0.3
Efficiency Ratios				
Asset Turnover Ratio	1.4	1.5	1.6	1.6
Inventory Days	76	74	70	70
Debtor Days	40	32	33	32
Creditor Days	77	70	69	69
Valuation Ratios				
P/E(x)	61.2	11.9	12.9	9.4
P/BV(x)	13.2	2.0	2.5	2.0
P/CEPS(x)	44.5	8.4	9.9	7.6
Dividend Yield(%)	47%	54%	46%	64%
EV/Net Sales(x)	3.7	0.7	0.8	0.6
EV/EBITDA(x)	28.3	6.2	6.9	4.9

Balance Sheet

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Source of Funds				
Share Capital (Incl Warrants)	156	157	157	157
Reserves and Surplus	9,518	11,191	13,677	17,086
Total Networth	9,674	11,347	13,834	17,243
Long Term Debt	2,793	1,610	1,550	1,350
Short Term Debt	4,035	4,167	4,772	5,536
Total Debt	6,828	5,777	6,322	6,886
Net Deferred Tax Liability	1,706	1,716	1,750	1,785
Other Liabilities	985	988	1,057	1,129
Sources of Funds	27,016	27,814	32,165	37,602
Application of Funds				
Net Block	13,585	13,454	14,141	14,267
Investments	2	42	44	47
Current Assets	12,046	11,783	15,268	20,380
Current Liabilities	12,013	12,152	13,973	16,094
Net Current Assets	32	-369	1,295	4,286
Application of Funds	27,016	27,814	32,165	37,602

Cash Flow

Y/E	FY22	FY23	FY24E	FY25E
PBT	3,035	2,912	3,949	5,413
Add: Depreciation	769	804	813	874
Add: Interest paid	854	835	802	875
Change in Working Capital	-400	301	171	298
Less: Taxes	-981	-974	-1,303	-1,786
Cash Flow from operations (a)	3,147	3,755	4,295	5,524
Change in Fixed Assets	-1,762	-673	-1,500	-1,000
Change in CWIP	124	-664	-33	-33
Change in Investments	0	-79	37	-3
Others	275	-1,141	96	94
Cash Flow from Investing (b)	-1,364	-2,557	-1,400	-942
Change in Equity	0	0	0	0
Debt Raised/(Repaid)	-1,005	-1,182	-60	-200
Dividend paid	-593	-125	-159	-218
Interest paid	-854	-835	-802	-875
Others	0	0	0	0
Cash Flow from Financing (c)	-1,737	-1,337	-1,021	-1,293
Net Change in Cash (a+b+c)	47	-139	1,874	3,289
Opening Cash	532	579	440	2,314
Closing Cash	579	440	2,314	5,603

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