

Steel Strip wheels Ltd. (SSWL)

Nifty: 19231

CMP: INR 275

Target Price: INR 351

WHERE ADVISORY MEETS EXCELLENCE

Autoparts & Equipment

Steel Strip wheels Ltd. (SSWL) reported net sales of INR 1133 Cr in 2Q FY24 (~4.9% increase on YoY basis) and PAT of INR 52.4 Cr (~4% decline over YoY basis). EBITDAM excluding other income stood at 11%, was flat on YoY basis. Increase in Employee cost by (up by 179bps) was largely offset by improvement in gross margin (improved by 212 bps) while other expenses increased by 19 bps. We expect the margin to improve with the help of increasing alloy wheel production and better exports. SSWL increased borrowings to fund alloy wheels expansion (preponed to meet high demand) & other projects. This increased finance cost & reduced other income; hence PAT was lower by ~4% to Rs 52 Cr. The company has started to see recovery in its export segment. We expect this export growth to continue, and we see exports of INR 550 - 600 Cr for FY24.

Unleashing Growth as High Margin Alloy Wheels Fuel Success

Leveraging the high-margin potential of alloy wheels, the company is now poised to enhance its capacity significantly, with plans to scale up from 3Mn wheels to 4.5Mn wheels at its Mehsana Plant in Gujarat during FY24. Notably, the company is also exploring lucrative opportunities to supply alloy wheels to MSIL.

Over the years, revenue contribution from the alloy wheel segment has displayed a remarkable ascent, climbing from 7% in FY20 to an impressive ~31% in FY23, and this upward trajectory is expected to continue. The alloy wheels will play an even more substantial role in their product mix moving forward. Looking ahead, the company's medium-term vision involves scaling its alloy wheel capacity up to an impressive 10 million wheels. This strategic capacity expansion to 4.5 million wheels is projected to yield substantial gains in revenue and EBITDA margins, given that the realization of alloy wheels is approximately 3-4 times higher than that of steel wheels. Moreover, with an already secured order book, the company is well-positioned to capitalize on this expansion. Looking to the immediate future, the company foresees a promising sales surge in aluminium products, signalling a positive trend in the aluminium market. As the company diligently steers its growth trajectory in the alloy wheel segment, it is evident that strategic decisions and forward-looking plans are set to drive remarkable success and market dominance in the industry.

Other Highlights

SSWL will get revenue from AMW Autocomponent's plant at the start of FY25. The plant has ~7mn units per annum steel wheels capacity, and the plan is to gradually start a few production lines.

Capex- FY24: Rs 320 Cr is expected to be spent on standalone business and additional Rs 140 Cr would be spent on AMW acquisition. Total capex of Rs 460 Cr is to be done in FY24. The standalone capex will be spent on alloy wheels expansion, Knuckle casting, renewable energy, automation, maintenance, etc. Expected asset turn once all capex will get over is 3-4x.

Effective tax rate: is expected to move to the new tax regime from FY25.

Trade receivables increased in H1FY24 is due to higher exports.

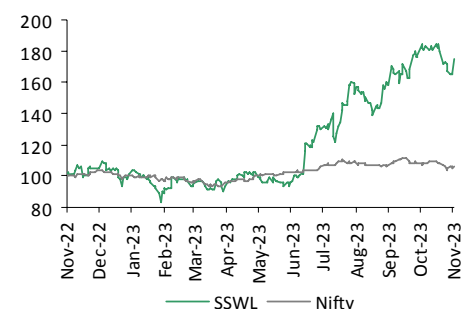
On the EV controllers business, the discussions are on-hold due to conditions in Israel

Outlook

Armed with multiple growth drivers and margin expansion opportunities, the company is poised for both volume growth and increased profitability. We expect Volume/Revenue/Ebitda to grow at CAGR of 13%/17%/26% respectively over FY25E. Considering the ongoing change in mix of higher margin alloy wheels and export which are expected to fuel further growth, we maintain BUY with target of Rs 351 valuing stock 15x its FY25E EPS of Rs 23.

Shareholding (%)	Sep-23
Promoters	62.70
FII's	6.05
DII's	1.81
Others	29.44

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)	43
52 Week H/L	299/126
2W Avg. Qty.NSE	408,640
CMP	275
Beta	1.33

(INR mn)	FY22	FY23	FY24E	FY25E
Net Sales	35600	40405	47720	55357
Growth (%)	103.5%	13.5%	18.1%	16.0%
EBIDTAM (%)	12.7%	11.0%	11.4%	12.7%
Adj. PAT	2055	1938	2644	3653
Growth (%)	317.2%	-5.7%	28.7%	38.2%
Adj. EPS (INR)	13.2	12.4	17.0	23.4
P/E (x)	61.2	11.9	16.2	11.7
EV/EBIDTA	28.3	6.4	8.6	6.3
EV/Sales	3.7	0.7	1.0	0.8
RoACE (%)	27.0%	24.4%	28.1%	31.7%
RoAE (%)	24.2%	18.6%	21.0%	23.5%

Autoparts & Equipment

Quarterly Financials

INR Mn	2Q FY24	2Q FY23	1Q FY24	% Chg (YoY)	% Chg (QoQ)	1H FY24	1H FY23	% Chg (YoY)
Revenue	11,337	10,811	10,444	4.9	8.6	21,781	20,972	3.9
RM Cost	7,472	7,354	6,748	1.6	10.7	14,221	14,149	0.5
Employee Cost	896	661	883	35.6	1.5	1,778	1,313	35.5
Other Expenses	1,725	1,624	1,683	6.2	2.5	3,408	3,246	5.0
Total Expenditure	10,093	9,639	9,314	4.7	8.4	19,407	18,707	3.7
EBITDA	1,244	1,172	1,130	6.2	10.1	2,374	2,265	4.8
Depreciation	225	202	224	11.2	0.2	449	403	11.5
Other Income	30	36	42	-18.6	-29.7	72	37	95.8
EBIT	1,049	1,006	948	4.3	10.7	1,997	1,899	5.2
Interest	260	206	236	26.3	10.4	496	388	27.7
Exceptional Items	-	-0		NA	NA	-	-	NA
PBT	789	800	712	-1.4	10.8	1,501	1,510	-0.6
Tax	265	254	236	4.4	12.2	501	483	3.8
Profit After Tax	524	546	476	-4.0	10.1	1,000	1,027	-2.7
Equity	157	157	157			157	157	
Face Value	1.0	5.0	1.0			1.0	5.0	
EPS	3.4	3.5	3.0	-4.0	10.2	6.4	6.6	-2.6
% of Sales				bps	bps			bps
RM Cost	65.9	68.0	64.6	-211.5	129.8	65.3	67.5	
Employee Expenses	7.9	6.1	8.5	179.0	-55.0	8.2	6.3	190.5
Other Expenses	15.2	15.0	16.1	18.7	-90.3	15.6	15.5	17.0
EBITDAM Excl Other income (%)	11.0	10.8	10.8	13.8	15.6	10.9	10.8	10.2
PATM (%)	4.6	5.1	4.6	-42.8	6.6	4.6	4.9	-30.7

Financials

Income Statement

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Net Sales	35600	40405	47720	55357
% Growth	103.5%	13.5%	18.1%	16.0%
RM Cost	21871	26636	29470	34058
% Growth	99.0%	21.8%	34.7%	15.6%
Employee Expenses	2187	2837	2951	3098
% Growth	43.0%	29.7%	29.7%	5.0%
Oth Expense	7014	6504	9872	11188
% Growth	138.9%	-7.3%	40.8%	13.3%
Total Op Exp	31072	35977	42292	48345
EBIDTA (excl OI)	4528	4428	5427	7012
% Growth	122.2%	-2.2%	22.6%	29.2%
EBITDA Margin %	12.7%	11.0%	11.4%	12.7%
Dep./Amortization	769	804	813	874
Other Income	130	124	136	150
EBIT	3889	3748	4750	6288
EBIT Margin %	10.9%	9.3%	10.0%	11.4%
Interest Expense	854	835	803	835
Exceptional Items	0	0	0	0
EBT	3035	2912	3947	5453
Tax Expenses	981	974	1302	1799
PAT	2055	1938	2644	3653
% Growth	317.2%	-5.7%	28.7%	38.2%
APAT Margin %	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	23.4
Adj. EPS	13.2	12.4	17.0	23.4
CEPS	18.1	17.6	22.2	29.0
DPS	3.8	0.8	1.0	1.4
BVPS	61.0	72.7	88.7	110.7
Return Ratios (%)				
RoACE	27.0%	24.4%	28.1%	31.7%
RoANW	24.2%	18.6%	21.0%	23.5%
Liquidity Ratios				
Net Debt/Equity	0.7	0.5	0.3	0.1
Interest Coverage Ratio	4.6	4.5	5.9	7.5
Current Ratio	1.0	1.0	1.1	1.3
Quick Ratio	0.0	0.0	0.1	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	16.2	11.7
P/BV (x)	13.2	2.0	3.1	2.5
P/CEPS (x)	44.5	8.4	12.4	9.5
Dividend Yield (%)	0.5	0.5	0.4	0.5
EV/Net Sales (x)	3.7	0.7	1.0	0.8
EV/EBIDTA (x)	28.3	6.4	8.6	6.3

Balance Sheet

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Share Capital	156	157	157	157
Reserves and Surplus	9518	11191	13676	17110
Total Networth	9674	11347	13833	17267
Long Term Debt	2793	1610	1550	1350
Short Term Debt	4035	4772	4772	5536
Total Debt	6828	6382	6322	6886
Net Deferred Tax Liability	1706	1716	1750	1785
Other Liabilities	985	988	1057	1129
Sources of Funds	27016	27814	31449	36796
Net Block	13596	13473	14160	14286
Investments	2	42	44	47
Current Assets	12046	11783	14553	19575
Current Liabilities	12013	12152	13258	15265
Net Current Assets	32	-369	1295	4310
Application of Funds	27016	27814	31449	36796

Cash Flow

Y/E	FY22	FY23	FY24E	FY25E
PBT	3,035	2,912	3,947	5,453
Add: Depreciation	769	804	813	874
Add: Interest paid	854	835	803	835
Change in Working Capital	(400)	301	(544)	184
Less: Taxes	(981)	(974)	(1,302)	(1,799)
Cash Flow from operations (a)	3,147	3,755	3,581	5,397
Change in Fixed Assets	(1,773)	(681)	(1,500)	(1,000)
Change in CWIP	124	(664)	(33)	(33)
Change in Investments	-	(79)	37	(3)
Others	438	(343)	96	94
Cash Flow from Investing (b)	(1,212)	(1,767)	(1,400)	(942)
Change in Equity	0	0	-	-
Debt Raised/(Repaid)	(1,005)	(1,182)	(60)	(200)
Dividend paid	(593)	(125)	(159)	(219)
Interest paid	(854)	(835)	(803)	(835)
Others	564	15	0	(1)
Cash Flow from Financing (c)	(2,452)	(2,142)	(1,022)	(1,255)
Net Change in Cash (a+b+c)	(516)	(154)	1,159	3,200
Opening Cash	532	579	440	1,599
Closing Cash	579	440	1,599	4,798

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