

Steel Strips Wheels Ltd. (SSWL)

Nifty: 24836

CMP: INR 237

Target Price: INR 356

WHERE ADVISORY MEETS EXCELLENCE

Automobile and Auto Components

In Q1FY25, Steel Strips Wheels Ltd (SSWL) reported a topline of Rs 10.2 billion while achieving a robust EBITDA margin of 11.1%, signifying one of the best performances in the past six quarters. This margin enhancement is largely attributed to declining steel prices and effective cost rationalization, as evidenced by a 7% YoY reduction in other expenses. Although the finance cost surged by 32% YoY and 11% QoQ to Rs 311 million due to rising interest rates, this impact was mitigated by a lower effective tax rate of 25.4% compared to 33.2% in the prior year. Despite a challenging export mix, which saw a 20% YoY decline in exports to Rs 1.23 billion, operational performance remained commendable. Other income decreased from an atypically high Rs 72 million in Q4FY24 to Rs 39 million in Q1FY25, contributing to a QoQ dip in PAT. Notably, EBITDA per wheel has improved significantly to Rs 248 in Q1FY25, with expectations to reach Rs 256 in FY25 and Rs 268 in FY26, excluding the Knuckle Casting segment.

Expected Recovery in Exports:

The management is confident of a significant recovery in export performance over the next three quarters. In the first quarter, the company experienced challenges, particularly with logistical issues related to freight and container availability, along with a notable slowdown in the U.S. market, which is typical due to seasonal variations in product demand. Despite these challenges, the ongoing U.S. elections, characterized by a generally anti-China sentiment regardless of the government, are expected to enhance Indian supply opportunities, making the anticipated demand from the U.S. resilient.

Performance of Alloy Wheels and OEM Relationships:

A downturn in alloy wheel sales was witnessed this quarter, which can be attributed to the postponement of start-of-production (SOP) timelines for certain original equipment manufacturers (OEMs). This has created a ripple effect on sales volumes, limiting growth in the alloy segment. However, the company is optimistic about future demand, noting that the trend seen in aluminium wheels will also extend to alloy knuckles, an area they plan to launch in Q3 FY25, anticipating a gradual improvement in market conditions.

Significant Capacity Expansions:

The company is pursuing capacity expansion and production growth initiatives aimed at increasing monthly output. The Jamshedpur plant is undergoing upgrades with the integration of equipment from AMW. The entire project is slated for completion by the end of Q3, with the objective of optimizing operational efficiency and elevating utilization rates to 90% after bringing

production capacity to 2.1 lakh from current 1.6 lakh. The installation of AMW's state-of-the-art machinery is anticipated to streamline production processes and substantially reduce operational costs, thereby enhancing the economic viability of the expansion. Additionally the management is confident in the adoption of alloy wheels, despite current sales falling short of expectations due to OEM cost pressures. For this the company has planned to boost alloy wheel production to 4 lakh units per month from the current capacity of 3.6 lakh by the end of FY25..

Market Dynamics in Steel and Alloy Wheels:

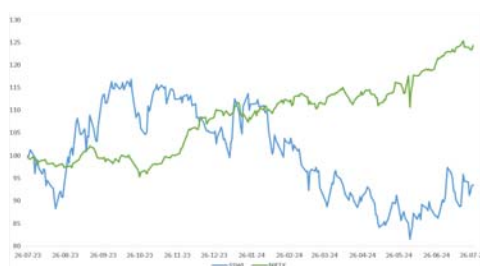
The company initially expected a 40% increase in the alloy wheel segment; however, a combination of sales challenges in high-end models has resulted in a 37% growth. However, the management is citing that in near term as consumer preferences will shift towards heavier, more stylish vehicles, the demand for alloy wheels will likely increase. In the meantime, the steel wheel segment is expected to sustain support for entry-level vehicles, allowing the company to balance its portfolio amidst evolving market demands.

Outlook & Valuation:

With multiple growth drivers and margin expansion potential, the company is well-positioned for robust volume growth and increased profitability. We project Volume/Revenue/EBITDA to rise by 9%/13%/36% over FY26(E). The ongoing shift toward higher-margin alloy wheels and increased exports will further fuel growth. Thus, we assign a HOLD rating with a target price of INR 356, valuing the stock at 22x FY26(E) EPS and 10.4x FY26(E) PE.

Shareholding (%)	Jun 24
Promoters	60.98%
FII's	6.35%
DIIs	4.01%
Others	28.66%

Relative Price Performance



Key Data	
BSE Code	513262
NSE Symbol	SSWL
Bloomberg Code	SSW:IN
Reuters Code	STWH.NS
Shares Outstanding (mn)	157
Face Value	1
Mcap (INR bn)	37
52 Week H/L	299/190
2W Avg. Qty. NSE	5,80,080
Beta	0.63

(INR mn)	FY23	FY24	FY25E	FY26E
Net Sales (INR mn)	40,405	43,571	47,927	53,928
Growth (%)	13%	8%	10%	13%
EBIDTAM (%)	11.0%	10.7%	10.6%	12.9%
Reported PAT (INR mn)	1,938	2,199	2,077	3,477
PAT Growth (%)	-5.7%	13.5%	-5.5%	67.4%
P/E (x)	18.7	16.5	17.4	10.4
EV/EBIDTA	4.4	4.8	4.8	3.9
Net Debt/Equity	0.5	0.7	0.6	0.5

Automobile and Auto Components

Quarterly Financials (Standalone)

INR Mn	Q1 FY25	Q1FY24	Q4FY24	% Chg (YoY)	% Chg (QoQ)
Revenue	10,253	10,444	10,687	-1.8	-4.1
RM Cost	6,641	6,748	6,980	-1.6	-4.9
Employee Cost	902	883	903	2.2	-0.1
Other Expenses	1,570	1,683	1,693	-6.7	-7.3
Total Expenditure	9,113	9,314	9,576	-2.2	-4.8
EBITDA	1,140	1,130	1,111	0.8	2.6
Depreciation	249	224	225	11.0	10.4
Other Income	39	42	72	-6.3	-45.4
EBIT	930	948	958	-1.9	-2.8
Interest	311	236	280	31.9	11.2
PBT	619	712	678	-13.1	-8.6
Tax	157	236	74	-33.5	112.0
Profit After Tax	462	476	603	-3.0	-23.4
Equity	157	157	157	0	0
Face Value	1.0	1.0	1.0	0	0
EPS	2.9	3.0	3.8	-3.3	-23.4
% of Sales				bps	bps
RM Cost	64.8	64.6	65.3	15.7	-54.5
Employee Expenses	8.8	8.5	8.4	35.1	35.1
Other Expenses	15.3	16.1	15.8	-80.0	-52.8
EBITDAM Excl Other income (%)	11.1	10.8	10.4	29.2	72.1
EBITDAM (%)	11.5	11.2	11.1	27.4	43.1
PATM (%)	4.5	4.6	5.6	-5.5	-114.1

Financials

Income Statement

Y/E (INR mn)	FY23	FY24	FY25E	FY26E
Net Sales	40,405	43,570.9	47,927.0	53,928.4
Net Sales Growth %	13%	8%	10%	13%
Raw Material Consumed	26,636	28,360.5	31,586.9	35,211.7
Employee Cost	2,837	3,580.3	3,992.0	4,451.1
General and Administration Expenses	6,504	6,978.2	7,257.3	7,329.9
Total Expenditure	35,977.3	38,919.0	42,836.3	46,992.7
EBITDA (Operating Profit (Excl OI))	4,428.13	4,651.9	5,090.7	6,935.7
EBITDA Growth(%)	-2.0%	5.1%	9.4%	36.2%
EBITDA Margin(%)	11.0%	10.7%	10.6%	12.9%
Depreciation	804	899.5	965.2	1,009.0
Other Income	124	160.6	175.1	190.9
EBIT	3,747.74	3,913.00	4,300.57	6,117.51
EBIT Margin (%)	9.3%	9.0%	9.0%	11.3%
Interest	835	1,026.7	1,200.0	1,150.0
PBT	2,912.30	2,886.3	3,100.6	4,967.5
Provision for Tax	974	687.4	1,023.2	1,490.3
PAT	1,938.10	2,198.9	2,077.4	3,477.3
PAT Growth(%)	5.7%	13.5%	-5.5%	67.4%
PAT Margin(%)	4.8%	5.0%	4.3%	6.4%

Key Ratios

Y/E	FY23	FY24	FY25E	FY26E
Return Ratios (%)				
ROA	6.97%	6.78%	5.64%	8.19%
ROCE	23.93%	20.30%	20.02%	24.09%
ROE	17.08%	16.34%	13.48%	18.65%
Liquidity Ratios				
Net Debt/Equity	0.51	0.65	0.57	0.54
Interest Coverage Ratio	4.49	3.81	3.58	5.32
Current Ratio	0.97	1.01	0.95	0.95
Quick Ratio	0.37	0.48	0.42	0.42
Per Share Data (INR)				
EPS	12.42	14.06	13.32	22.29
DPS	0.80	1.00	0.93	1.56
BVPS	72.74	86.02	98.77	119.50
Efficiency Ratios				
Inventory Days	94.62	92.08	87.73	89.29
Debtor Days	37.60	36.98	36.64	34.68
Asset Turnover	0.16	0.14	0.14	0.16
Creditors Turnover	92.77	83.32	81.45	88.01
Valuation Ratios				
P/E	18.67	16.50	17.42	10.41
P/BV	2.00	2.70	2.35	1.94
EV/EBITDA	4.44	4.80	4.83	3.89
EV/Sales	0.49	0.51	0.51	0.50
Dividend Yield(%)	0.34%	0.43%	0.40%	0.67%
Margin Ratios(%)				
EBITDA Margin	11.0%	10.7%	10.6%	12.9%
EBIT Margin	9.3%	9.0%	9.0%	11.3%
Non Core EBIT	8.97%	8.61%	8.61%	10.99%
PAT Margin	4.8%	5.0%	4.3%	6.4%

Balance Sheet

Y/E (INR mn)	FY23	FY24	FY25E	FY26E
Share Capital	157	157	157	157
Total Reserves	11,191	13300	15251	18485
Shareholder's Funds	11,347	13457	15408	18642
Long-Term Borrowings	1,610	3814	4000	4600
Deferred Tax Assets / Liabilities	1,716	1469	1498	1528
Other Long Term Liabilities	683	195	199	203
Long Term Provisions	305	343	377	424
Total Non-Current Liabilities	15,661	19277	21482	25397
Current Liabilities	4,314	5820	6074	6756
Trade Payables	6,948	5999	8098	8884
Other Current Liabilities	986	2201	2421	2724
Short Term Borrowings	4,167	4908	4793	5393
Short Term Provisions	51	62	68	75
Total Current Liabilities	12,152	13170	15379	17075
Total Liabilities	27,813.7	32447	36861	42472
ASSETS				
Net Block	13,454	14568	14122	14720
Capital Work in Progress	1,634	3458	6792	10105
Intangible assets under development	13	3	3	3
Non Current Investments	42	92	99	107
Long Term Loans & Advances	221	226	248	278
Other Non Current Assets	648	850	935	1052
Total Non-Current Assets	16,012	19197	22198	26265
Current Assets				
Inventories	7,340	6970	8215	9012
Sundry Debtors	3,488	4397	4202	4728
Cash and Bank	440	309	496	502
Other Current Assets	487	177	214	237
Short Term Loans and Advances	48	1397	1536	1729
Total Current Assets	11,802	13250	14644	16191
Total Assets	27,813.7	32447	36862	42472

Cash Flow

Y/E	FY23	FY24	FY25E	FY26E
PBT	2,912.3	2,886.3	3,100.6	4,967.5
Add				
Depreciation	804.4	899.5	965.2	1,009.0
Interest	835.4	1,026.7	1,200.0	1,150.0
Less				
Other Income	124.0	160.6	175.1	190.9
Taxes paid	974.2	687.4	1,023.2	1,490.3
CFO before CWC	3,453.9	3,964.4	4,067.5	5,445.4
Changes in WC				
Inventories	-870.1	370.5	-1,245.7	-797.1
Sundry Debtors	435.4	-909.3	195.5	-526.2
Loans & Advances	-6.3	-1,349.3	-139.6	-192.4
Payables	357.1	-949.2	2,098.7	785.7
Provisions	5.3	10.9	6.2	6.6
Others	379.6	2,207.4	86.7	878.8
Net Change in WC	300.9	-619.0	1,001.8	155.5
Cash flow from Operations	3,754.8	3,345.5	5,069.3	5,600.9
Change in Fixed Assets	-673.5	-2,013.2	-519.3	-1,607.0
Change in Capital WIP	-664.2	-1,824.8	-3,333.3	-3,313.5
Change in Investments	-78.6	-11.0	-7.3	-7.9
Other Income	124.0	160.6	175.1	190.9
Others	-1,265.2	-1,691.9	-39.0	-65.9
Cash flow from Investments	-2,557.4	-5,380.3	-3,723.8	-4,803.5
Change in Equity	0.4	0.4	0	0
Share Warrants & O/S	0	0	0	2.0
Change in Debt	-1,182.1	2,203.2	186.3	600.0
Dividend Paid	-124.8	-156.4	-145.4	-243.4
Interest Paid	-835.4	-1,026.7	-1,200.0	-1,150.0
Others	805.1	884.1	0	0
Cash flow from Financing	-1,336.8	1,904.6	-1,159.1	-791.4
Opening Cash	578.9	439.6	309.4	495.8
Closing Cash Bal	439.6	309.4	495.8	501.9

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