

Focusing on Product Diversification and Export Market

Steel Strips Wheels Limited (SSWL) is a leader in designing & manufacturing automotive wheels – both under the steel and alloy categories. The company is based out of Chandigarh with manufacturing facilities at Dappar (Punjab), Oragadam (Chennai), Jamshedpur (Jharkhand), Mehsana (Gujarat) and Saraikela (Jharkhand). These plants have a combined manufacturing capacity of about ~23 Mn wheels per annum. With the acquisition of AMW Autocomponent (pending regulatory approvals) SSWL is expected to add ~7 Mn steel wheel capacities in the future.

In FY23, steel wheels contributed ~69% (97% in FY19) and alloy wheels contributed 31% (3% in FY19) to total revenue of Rs 4,041 Cr (~Rs 2,041 Cr in FY19). It produced a total of ~1.76 Cr wheel rims in FY23.

Key Plant Visit Highlights

Alloy Wheel Capacity Expansion

The company diversified itself from being a single-product supplier of Steel Wheel rims when it introduced a premium category product – Alloy Wheels rims in FY19. The company continues to focus on plant automation to minimize factory lead time and enhance existing capacities, which will aid it in achieving higher ROI moving forward. Currently, new machines are being installed to enhance Alloy Wheel capacity from 3.24 Mn to 4.8 Mn by FY24 end. The company has also installed advanced machinery to produce Flow Formed Alloy Wheels. Flow Forming Technology involves the application of pressure to the inner barrel of the wheel while spinning and after it has been cast. This process stretches and compresses the aluminium – the final product being lighter, stronger, increased tensile strength and elongation, as well as greater shock resistance compared to traditional cast wheels.

Product Diversification

We witnessed the installation of a new machine line producing Aluminium Steering Knuckles on the day of our visit which has a production capacity of 3 Lc units per annum (one car needs four knuckles). The company aims to install 5-6 more machines by FY26, demand for which is backed by orders from MnM and LOI from Tata Motors (~1.5 Mn annually by FY26). This shall require an additional capex of ~Rs 200 Cr by FY26. The steering knuckle is one of the components that make up the automotive steering system. It contains wheel hubs (or spindles) and attaches to the suspension and steering components of a vehicle to transfer the movements of a steering wheel to the front and rear wheels. Traditionally in India, the steering knuckle is made of ductile cast iron or forged steel. However, due to the recent tendency of OEMs towards lightweighting EV vehicle, more cars will be supplied with aluminium knuckles.

Enhancing Exports Opportunities

SSWL is focused on a shift of sales mix towards the high-margin export wheel segment. The company currently supplies wheels to the USA and EU among others via wholesalers like Road Ready, Alcar Wheels, Tredit, and OE Wheels in the aftermarket. The management is hopeful to start exports to OEMs like VW in the near future; thereby aiming to double its exports by FY25.

Others

- **AMW Acquisition:** As per our estimates, the AMW plant is to slowly begin production in H2FY25 and reach 5-10% capacity utilization in FY26 mainly towards meeting export demand for CV, OTR, and Tractor wheels.
- **Supply of Alloy wheels to Maruti is expected to begin in Q4FY24.** Technical feasibility has been completed and discussion on commercial feasibility is ongoing.
- **Product testing for motors and controllers is underway with OEMs.** The JV with Reddler is pending regulatory approval. We expect commercial production to start in FY26.

Outlook

We factor in total wheel volumes at 19.5 Mn and 20.5 Mn units in FY24/25 respectively (lower against earlier estimates on slower ramp-up of the AMW plant). With alloy wheels and exports share increasing; and the introduction of a new product line-Aluminium Steering Knuckles, we estimate EBITDA/PAT to grow at 11%/17% CAGR over FY23-26.

Valuation & Recommendation

With a focus on fulfilling export demand from the US and Europe, ramping up of Alloy wheels, and AL knucklers division; and further diversification into the Motor+Controller EV business (JV with Reddler) in the future, we value the stock at 17x PE multiple on our Sep'25 EPS (rollover from Mar'23)[We switch from EV/EBITDA of 5.5x on strengthening balance sheet and lower net debt levels]. **We maintain our BUY rating on the stock with a revised TP of Rs 325/share (from Rs 240/share earlier), implying an upside potential of 22% from the CMP.**

 (CMP as of 22nd Sep, 2022)

CMP (Rs)	265
Upside /(Downside (%))	22%
High/Low (Rs)	289/126
Market cap (Cr)	4143.69
Avg. daily vol. (6m) Shrs.	636,567
No. of shares (Cr)	15.65

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	62.60	62.68	62.68
FII's	5.63	5.63	5.63
MFs / UTI	0.13	0.21	0.21
Fin Inst./Banks	0.01	0.01	0.01
Others	31.63	31.47	31.47

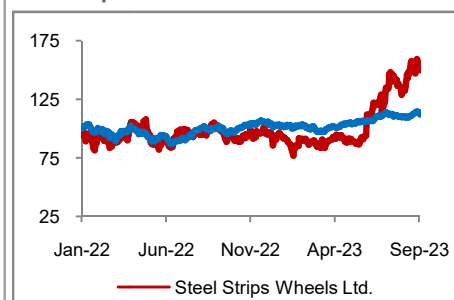
Financial & Valuation

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	4,041	4,360	4,814
EBITDA	443	464	530
Net Profit	194	220	275
EPS (Rs.)	12.3	14.0	17.6
PER (x)	12.1	18.9	15.1
EV/EBITDA (x)	5.7	9.3	8.2
P/BV	2.1	3.1	2.6
RoE (%)	18.5	17.7	18.6

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	46.4

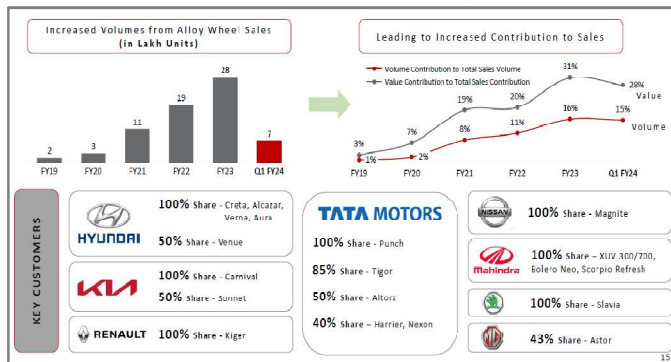
Relative performance



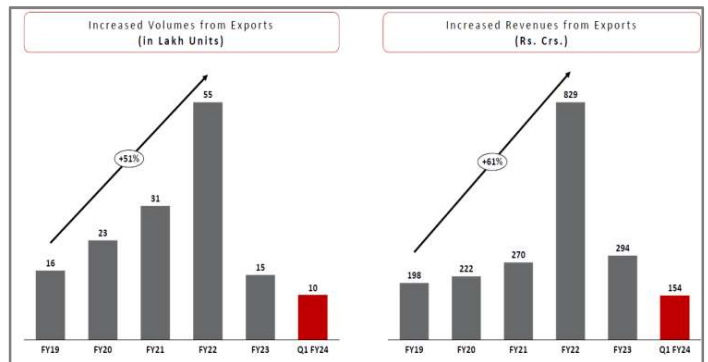
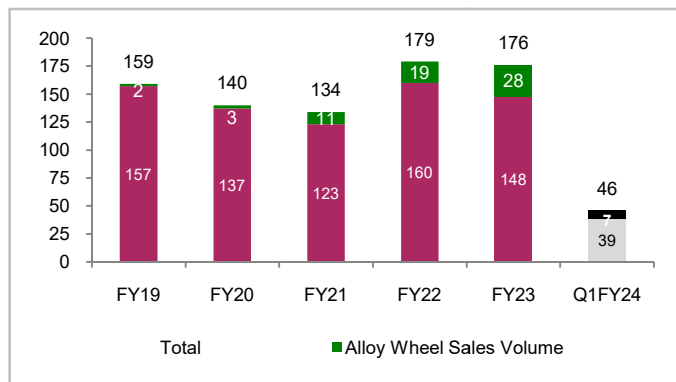
Source: Ace Equity, Axis Securities

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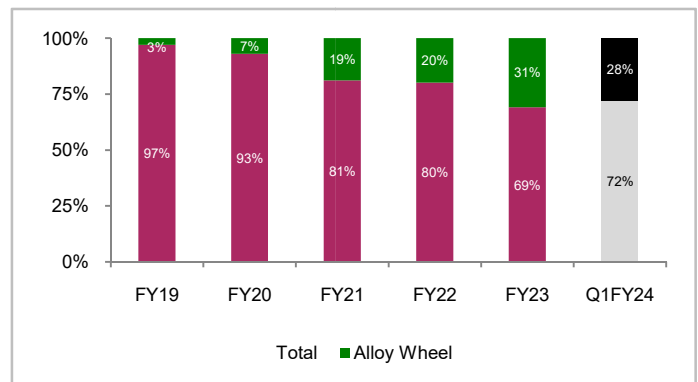
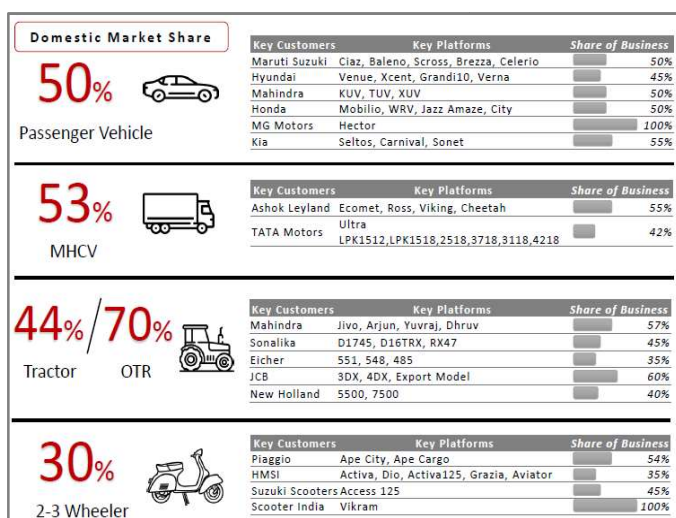
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Exhibit 1: Shift of Sales Mix to High Margin Alloy Wheels


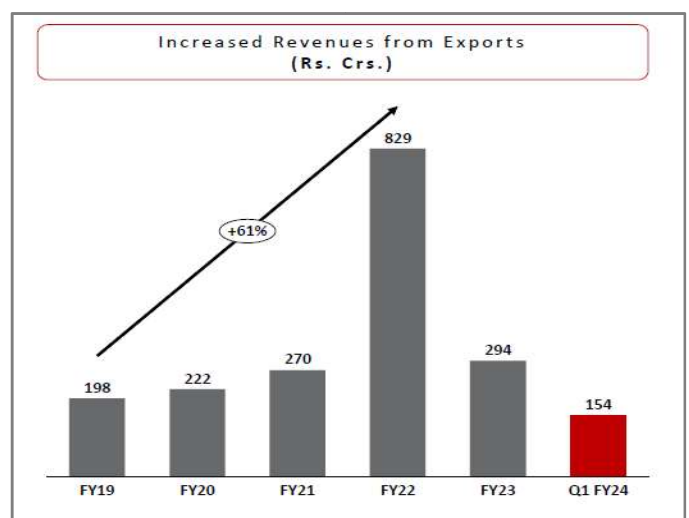
Source: Company

Exhibit 2: Shift of Sales Mix to High Margin Exports Segment

Exhibit 3: Volumes: Steel & Alloy Wheels (in Lcs)


Source: Company

Exhibit 4: Contribution to Sales (in %)

Exhibit 5: Domestic Market Share


Source: Company

Exhibit 6: Exports Revenue


Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	4,041	4,360	4,814	5,381
Other operating income	0	0	0	0
Total income	4,041	4,360	4,814	5,381
Cost of goods sold	3,403	3,688	4,053	4,520
Contribution (%)	15.8%	15.4%	15.8%	16.0%
Advt/Sales/Distrn O/H	195.1	207.7	231.1	258.3
Operating Profit	443	464	530	603
Other income	12	11	16	4
PBIDT	455	475	546	607
Depreciation	80	87	99	110
Interest & Fin Chg.	84	82	79	79
E/o income / (Expense)	0	0	0	0
Pre-tax profit	291	306	368	419
Tax provision	97	86	93	105
(-) Minority Interests	0	0	0	0
Associates	-0	-0	-0	-0
Reported PAT	194	220	275	313

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total assets	2,043	2,249	2,527	2,800
Net Block	1,349	1,575	1,746	1,856
CWIP	163	150	120	100
Investments	4.1	4.1	4.1	4.1
Wkg. cap. (excl cash)	483	440	621	683
Cash / Bank balance	44	80	36	157
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	2,043	2,249	2,527	2,800
Equity capital	16	16	16	16
Reserves	1,119	1,323	1,583	1,880
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	737	737	737	697
DefTax Liabilities	172	173	192	207

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Sources	125	293	377	383
Cash profit	358	389	453	502
(-) Dividends	12	16	16	16
Retained earnings	346	374	437	486
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	3	0	0	0
Borrowings	-146	0	0	-40
Others	-78	-81	-60	-64
Applications	125	293	377	383
Capital expenditure	180.5	300.0	240.0	200.0
Investments	4.0	0.0	0.0	0.0
Net current assets	(47.7)	(43.0)	180.9	61.8
Change in cash	(11.7)	35.9	(43.7)	120.9

Source: Company, Axis Securities

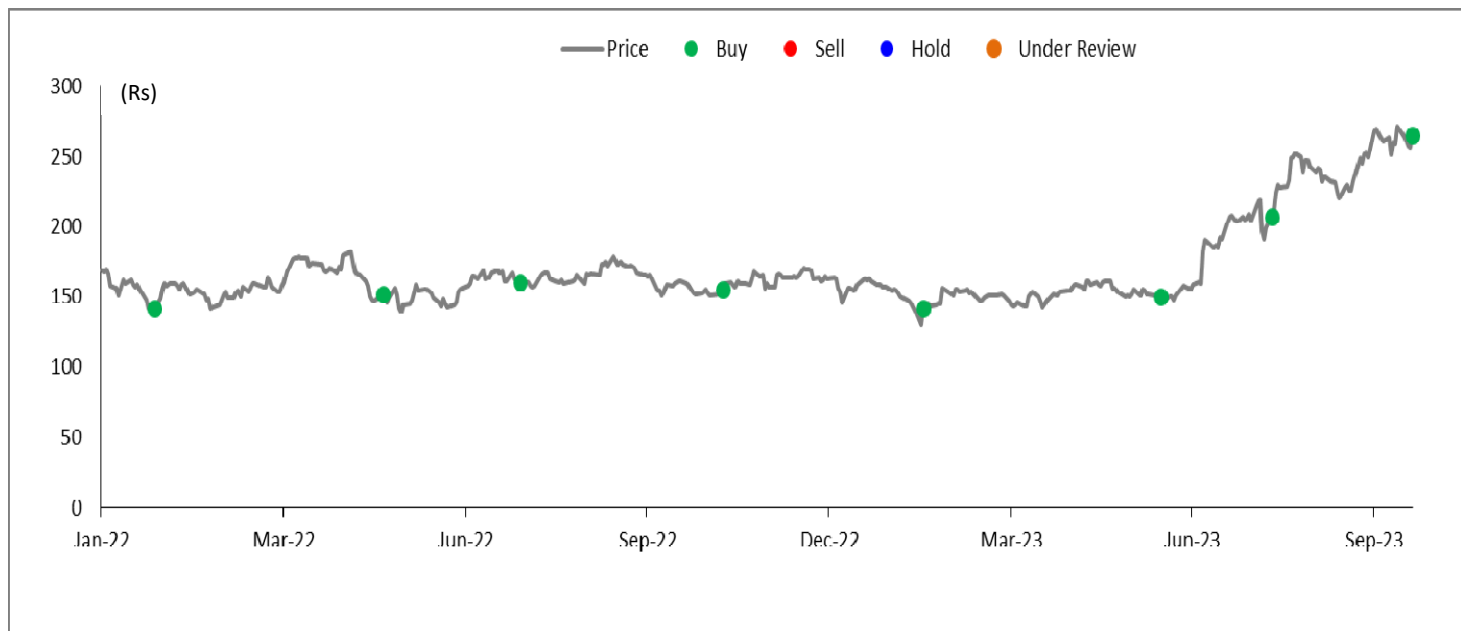
Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth	13.5	7.9	10.4	11.8
OPM	11.0	10.7	11.0	11.2
Oper. profit growth	(2.2)	4.9	14.1	13.8
COGS / Net sales	84.2	84.6	84.2	84.0
Overheads/Net sales	4.8	4.8	4.8	4.8
Depreciation / G. block	3.7	3.5	3.6	3.7
Effective interest rate	10.7	11.6	11.2	11.5
NPM	4.8	5.0	5.7	5.8
Net wkg.cap / Net sales	0.10	0.09	0.09	0.11
Net sales / Gr block (x)	1.9	1.8	1.8	1.8
RoCE	24.4	23.2	23.4	22.8
Debt / equity (x)	0.62	0.53	0.44	0.35
Effective tax rate	33.5	28.1	25.2	25.2
RoE	18.5	17.7	18.6	17.8
Payout ratio (Div/NP)	6.1	7.1	5.7	5.0
EPS (Rs.)	12.3	14.0	17.6	19.9
CEPS (Rs.)	17.5	19.6	23.9	26.9
DPS (Rs.)	0.7	1.0	1.0	1.0

Source: Company, Axis Securities

Steel Strips Wheels Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jan-22	BUY	215	Result Update
18-May-22	BUY	200	Result Update
25-Jul-22	BUY	190	Result Update
28-Oct-22	BUY	174	Result Update
31-Jan-23	BUY	160	Result Update
26-May-23	BUY	165	Result Update
18-Jul-23	BUY	240	Result Update
22-Sep-23	BUY	325	Company Update

About the analyst

1. **SrResearch Analyst: Aditya Welekarisa** PGDBM in Finance with 10 years of experience in Equity Market/Research.
2. **Research Associate: Shridhar Kallani** is a Chartered Accountant and a graduate from St. Xaviers College Kolkata.

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