Initiating Coverage
1st December 2023

Steel Strips Wheel Ltd

Strategic Emphasis on Product Diversification

CMP: INR 279

Rating: Buy

Target Price: 410

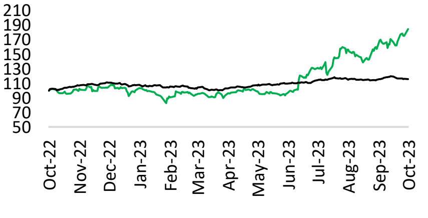
Stock Info	
BSE	513262
NSE	SSWL
Bloomberg	SSW IN
Sector	Auto Ancillaries-wheels
Face Value (INR)	1
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	44,410
52w H/L (INR)	299/126
Avg Yearly Vol (in 000')	312

Shareholding Pattern %
(As an Sept, 2023)

Promoters	62.27
Public & Others	37.73

Stock Performance (%)	1m	3m	12m
SSWL	8.1	13.6	72.0
Nifty	6.6	4.2	7.6

SSWL Vs Nifty



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Steel Strips Wheels Ltd, it designs, manufactures, and supplies Steel Wheel Rims and Alloy Wheels to domestic and global automobile makers. In H1FY24, alloy wheels accounted for 28% of revenue, while steel wheels comprised 72%. Their market shares in steel wheels for H1FY24: PV - 45%, M&CV - 53%, Tractor - 44%/70% OTR.

Investment Rationale

Expanding Alloy Wheel Capacity Sparks Significant Company Growth: The company has expanded aluminum wheel production from 3 billion to 4.8 billion. Numerous new projects are underway in America and Europe, and the second half of fiscal year 2024 is expected to be strong for the company. The company plans to expand its capacity in the thriving Indian CV business, expecting a strong cyclical upswing for the next three to four years. Current capacity is fully utilized, with shortages in both aluminum and CV production. SSWL's profitability is expected to enhance over the next two-three years through achieving the best possible capacity utilization due to the revival in the automotive sector.

Strong traction in Export: Export sales are performing well, and increased exports may result in additional orders. The export business is going to be leading the story for the H2FY24 and will see the higher EBITDA numbers and higher revenue numbers. exports have grown 150% and that run-rate should continue for the FY24. Company exports to nearly 22 countries, of which US accounts 64% followed by European Union 25% and rest 11% comes from other countries. The company should be looking at INR 6000 Mn plus in exports growth versus about INR 2940 Mn in FY23 and H1FY24 INR 3310 Mn. So it's a 100% increase over last year.

AMW acquisition to lead to better EBITDA: Following the AMW Auto acquisition, SSWL will expand steel wheel capacity by 7 mn to reach 27.5 mn, and alloy wheel capacity will grow by 1.5 mn to hit 4.5 mn post debottlenecking. The alloy wheel segment, constituting about 30% of revenue, enjoys twice the realization of steel wheels, driven by strong demand from SUVs and the premiumization trend in the PV and 2-W market, while maintaining major OEM clients.

FY24's strategy: Substantial capex and investments to diversify into new businesses: The alloy wheel facility to take it from 3 mn to 4.8 mn wheels. Plus on the casting they did a INR 900 Mn capex in FY23. This is an expansion of existing business, there is going to be some capex. R&D increase of INR 16 Mn due to new hiring and 10 Mn from the investment in EV. INR ~21.6 Mn from the business from this revenue will start happening from H2FY24. This new casting business is expected to start generating revenue in next 3-4 months. This diversification will start reflecting on financials performance from next fiscal year. In FY24 ~INR 3200 Mn Funds would be utilized mainly for 1) automation of existing plants, 2) some part of it to steering knuckle, motor controllers and some towards AMW acquisition.

Outlook and valuation

The turnaround in export and a strong order book on the export front will help in FY24 growth. The company targeting to increase MS in alloy wheels. Working on improving ROCE in the long term instead improve margin in the near term. ***At a CMP of INR 279, SSWL is trading at a EV/EBITDA of ~7.1x to its FY26E EBITDA of INR 6,158 Mn. We have used a DCF Model to SSWL. AMW is increasing its investment, taking advantage of the extended positive trend in the CV upcycle, and benefiting from the additional demand generated by the Motor+ Controller EV business. We have valued AMW to its Capex of INR 1580 Mn with PV (FY26e) of INR 550 Mn for the value per share of INR 3.51. We initiate coverage with a "BUY" rating at a Target Price of INR 410 per share based on DCF; an upside of 47%.***

Exhibit 1: Financial Estimates

Year End-March INR Mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	15,633	17,494	35,600	40,405	43,712	48,655	54,741
Change (%)	-23.41%	11.90%	103.49%	13.50%	8.18%	11.31%	12.51%
EBITDA	1,712	2,038	4,528	4,428	4,852	5,459	6,158
EBITDA Margin (%)	10.95%	11.65%	12.72%	10.96%	11.10%	11.22%	11.25%
PAT	234	493	2,055	1,938	2,133	2,693	2,986
ROE	3.36%	6.57%	21.59%	17.08%	16.01%	16.98%	15.98%
ROCE	5.79%	7.74%	20.31%	18.60%	27.36%	27.37%	26.58%
EPS	14.6	15.7	13.2	12.4	13.6	17.2	19.1
P/E	19.1	17.7	21.2	22.5	20.5	16.2	14.6

Source: Company, Arihant Research

Exhibit 2: Company Detail Background

Company Snapshot	
Company Background	SSWL is a leader in designing & manufacturing automotive wheels both under the steel & alloy category. State of the art facilities caters to a wide range of domestic and global automobile makers while following the highest quality standards. They are 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 20+ mn wheels per annum and growing, as they continue to explore new avenues. They have been able to build up a successful and long-lasting strategic partnership with Indian industry giants such as Tata Steel Ltd. and international players such as Kalink Co., from South Korea.
Promoter Background	Dheeraj Garg is the MD & Exec. Director at Steel Strips Wheels. Dheeraj Garg was previously associated with 2 companies, Dhg Marketing Private Limited, Chandigarh Developers Private Limited.
Promoter Holdings	Dheeraj Garg is holding 29.65% but total promoter holding stands at 62.27%
Other Key Holdings (Sept-23)	Sab Industries Limited -8.46%, Sab Udyog – 7.30% Tata Steel-6.94%, Sumitomo Metal Industries – 5.43%, Sunena Garg – 5.11%, Priya Tools private -3.37%
Revenue Mix	Alloy Wheel-28% and Steel Wheel-72%
Domestic Market share	PV-45%, MHCV-53%, Tractor-44%/70%-OTR and 30%-2w&3w
Region wise export revenue contribution	US-69%; EU-27%; Others-4%
Key customers	**PV-45%** Maruti Suzuki- Ciaz, Baleno, Scross, Brezza, Celerio- share of business 42% Hyundai-Venue, Xcent, Grandi10, Verna -share of business 42% Mahindra- KUV, TUV, XUV-share of business 50% Honda- Mobilio, WRV, Jazz Amaze, City-share of business 50% MG Motors- Hector -share of business 100% Kia Seltos, Carnival, Sonet-share of business 100% **MHCV-53%** Ashok Leyland- Ecomet, Ross, Viking, Cheetah-share of business 55% TATA Motors -Ultra LPK1512,LPK1518,2518,3718,3118,4218-share of business 42% **Tractor-44%/70%-OTR** Mahindra- Jivo, Arjun, Yuvraj, Dhruv -share of business57% Sonalika D1745, D16TRX, RX47 -share of business 45% Eicher 551, 548, 485 35% -share of business 35% JCB 3DX, 4DX, Export Model -share of business 60% New Holland 5500, 7500 -share of business 40% **30%-2w&3w** Piaggio Ape City, Ape Cargo - share of business 54% HMSI Activa, Dio, Activa125, Grazia, Aviator-share of business 35% Suzuki Scooters Access 125 - share of business 45% Scooter India -Vikram -share of business 100%
Strategic Partnerships	TATA Steel Limited, India-6.94% Stake in Steel Strips Wheels Limited Nippon Steel & Sumitomo Metal Corporation, Japan-5.43% Stake in Steel Strips Wheels Limited

Source: Company, Arihant Research

SSWL Q2FY24 Concall KTAs

Guidance

•On the base of INR 4500-4700 Cr it is expected INR 1500 cr to INR 2200 cr which is 14-15% cr of growth and EBITDA current performance maintain the margin profile.

•In FY24, knuckle production reached mass scale, yet no revenue recognition, with an expected revenue of INR 35-40 Cr anticipated in FY25.

•Margin is in line with the current performance and expansion in FY24

Concall KTAs

•**Capex:** Aluminum knuckles for the capex INR 2000 Mn on the exterior side. INR 180-200 cr which can generate revenue of INR ~2500 Mn of a supply and margin profile. In FY24, mass product will start June 2024. Half of the capacity will come in next financial year and for this already done INR 155 Mn capex and total capex ~INR 500 Mn for knuckles. Total CAPEX INR 3200 Mn around INR 1900 Mn is on the alloy wheel side, INR 500 Mn is on the nickels part and balance is on the other project. Once the capex is complete asset turnover hovering between 3x to 4x. Aluminum knuckles (PV) INR 2000 Mn capex and revenue INR 2500 Mn. Phase 1.2x-1.3x and decent margin and after 1st phase will have disclosed for the next phase

•**AMW:** The company expect total CapEx of ~INR 1580 Mn inclusive of maintenance expense and company expect AMW plant in Bhuj to become commercially operational by Q1FY25.

•**Revenue mix H1FY24:** The company has been 28% from the alloy wheel and balance 72% from the steel wheel user. For alloy wheel rim, sale volume has increased by 6% YoY to 14.8 lakh wheel rim. For steel wheel rim, sale volume has increased by 8% YoY to 82.7 lakh wheel rim.

•**Tax rate:** The company tax rate 33% and next year onwards 25%. Auto ancillary will see some tax release

•**Export:** INR 3310 Mn in this year and guidance for INR 6000 Mn for exports. Decent export expecting going forward. 2 RFQs from the export.

•**Existing client:** The existing client will ramp down their China supplies and will ramp up their India listings so which give confidence on the kind of geopolitical as well as the current economic, environment. So, no risk of any region-specific issue is expected.

•The company has order in pipeline with Maruti for the alloy wheel side.

•**CV Cycle:** On the CV cycle, the number is based on actual progress, so there is a jump of almost 20% in terms of volume QoQ. The company's believe that this growth will continue for the rest of the year

•**EV:** The discussions with the Israeli company is on hold because of the war. The company is in discussions with them on a daily basis. Q2FY24 should not have any development given the kind of circumstances that they have from that country. Company is awaiting the clearances of all the obstacles on the geopolitics on Israel. EV side company is supplying to ~50% of the market and expect it will increase to 70-75% by end of Q3FY24.Penetration is <1% domestic production capacity will give enough reasons for localizing it. The next five years, this opens up an opportunity of 20,000 Mn to 25,000 Mn worth of an industry exposure.

•**Capacity:** Alloy wheel production capacity to 4.8 mn from that 3.6 mn will be for the domestic and 1.2 mn will be kept for export.

•**Margin difference:** Alloy wheel in the range of 15-17% vs steel wheel is in the range of 8-9%.

SSWL-Plant Visit Key takeaways
SSWL increasing Alloy Wheel production to 4.8M units with advanced Flow Forming for superior, lightweight wheels.

In FY19, the company expanded beyond its traditional steel wheel rim offerings by introducing premium Alloy Wheels rims. The company focused on automating manufacturing processes to reduce lead times and increase capacity, leading to improved returns on investment.

Currently, SSWL is in the process of installing new machinery to boost the Alloy Wheel production from 3.24 mn to 4.8 mn units by FY24. Additionally, They have adopted Flow Forming Technology, which involves applying pressure to the inner barrel of the wheel during spinning. This innovation results in lighter, stronger, and more shock-resistant alloy wheels with enhanced tensile strength compared to traditional cast wheels.

Expanding Product Range for Market Diversity
During our visit, we observed the installation of a new production line for Aluminum Steering Knuckles with a capacity of 3 mn units per annum (equivalent to one car requiring four knuckles). The company's plan is to add 5-6 more machines in FY25, and this expansion is driven by orders from MM and Tata Motors, which are expected to reach ~1.5 mn units annually by FY26. To fund this expansion, an additional capital expenditure of ~INR 2000 Mn is planned for FY26.

The steering knuckle is a vital component in the automotive steering system. It connects the wheel hubs (spindles) and is attached to the suspension and steering elements of a vehicle. Its role is to transmit the movements of a steering wheel to the front and rear wheels. Traditionally, steering knuckles have been manufactured from ductile cast iron or forged steel. However, in response to the growing trend for lightweight vehicles, an increasing number of cars are being equipped with aluminum knuckles.

Maximizing Export Potential
SSWL is directing its attention toward shifting its sales mix to the high-margin export wheel segment. Presently, the company provides wheels to various destinations, including the USA and the EU, through wholesalers such as Road Ready, Alear Wheels, and Tredit, as well as OE Wheels in the aftermarket. The management is optimistic about commencing exports to OEMs like VW shortly, with the goal of doubling their exports by FY26.

Other Highlights
The AMW plant is projected to commence production gradually in the second quarter of Year 2025, with capacity utilization expected to reach 5-10% by the end of FY25. This initial production will primarily focus on meeting the export demand for commercial vehicles, off-the-road (OTR) vehicles, and tractor wheels.

The supply of Alloy wheels to Maruti is anticipated to commence from Q4FY24. Technical feasibility studies have been completed, and discussions regarding commercial feasibility are currently in progress.

Product testing for motors and controllers with OEMs is in progress. Regulatory approval is pending for the Voith Reddier, and commercialization is expected once approval is obtained.

Margins
Alloy wheels typically yield higher profitability with margins ranging from 15%-18%. In contrast, Steel wheels tend to have lower margins, typically falling within the range of 9% to 12%. Additionally, the efficiency of asset utilization for Alloy wheels is notably better, with a turnover rate of around 3x, whereas Steel wheels have a lower turnover rate at ~1.2x. It's worth noting that the company has expanded its Alloy wheel production capacity to 4.8 mn units per year.

Customers: The company made some adjustments in its customer portfolio, including the addition of Tafe, while discontinuing a couple of models for Maruti due to their low-margin nature. Despite losing the Maruti program, the company managed to achieve improved margin performance.

Technology: SSWL exclusively employs Low Pressure Die Casting (LPDC) for its manufacturing process. It's worth noting that Japanese original equipment manufacturers (OEMs) typically favor Gravity Die Casting (GDC), while Korean OEMs tend to prefer High/Low Pressure Die Casting (H/L PDC).

Revenue target

The company's revenues have grown from INR 10 bn to INR 40 bn in recent years. They aim to double this in the next five years by emphasizing high-margin alloy wheels and exports. Currently, they can make INR 8-10 bn from steel wheels. As they expand into alloy wheels, exports may contribute 20-25% of their revenues in five years. They have set revenue targets of INR 1 bn in FY24 and INR 5-7 bn in five years, having received 2 RFQs from export.

Capex: In FY24 ~INR 3200 Mn Funds would be utilized mainly for 1) automation of existing plants, 2) some part of it to steering knuckle, motor controllers and some towards AMW acquisition.

Volume : 50% PV; 15% CV; 15% 2W and 3W, 9% tractor and 11% OTR. For exports, 85-90% PVs, 9-10% CVs and remainder tractors.

View: The outlook for Fiscal Year 2024 is somewhat less optimistic compared to the previous year. However, there is an anticipation of a partial recovery in the H2FY24. This recovery is expected to be driven by growth in the 2Ws, commercial vehicles CVs, tractor, and a moderate expansion in the PV segment.

Source: Company, Arihant Research

Quarterly Performance

Consolidated (INR Mn)	Q2FY24	Q1FY24	QoQ	Q2FY23	YoY
Revenue from operations	**11337**	**10444**	**8.6%**	**10811**	**4.9%**
Cost of materials consumed	7482	6884	8.7%	7189	4.1%
Change in inventory	-9	-135	-93.2%	165	-105.6%
Cost of Goods Sold (COGS)	**7472**	**6748**	**10.7%**	**7354**	**1.6%**
Gross Profit	**3865**	**3696**	**4.6%**	**3457**	**11.8%**
Employee benefits expense	896	883	1.5%	661	35.6%
Other expenses	1725	1683	2.5%	1624	6.2%
Total operating Expenses	10093	9314	8.4%	9639	4.7%
EBITDA	**1244**	**1130**	**10.1%**	**1171.61**	**6.2%**
EBITDA Margin (%)	**10.98%**	**10.82%**	***16bps***	**10.84%**	***14bps***
Depreciation and amortisation expenses	225	224	0.2%	202	11.2%
EBIT	**1019**	**905.65**	**12.6%**	**969**	**5.2%**
EBIT Margin (%)	**8.99%**	**8.67%**	**3.7%**	**8.97%**	**0.3%**
Finance costs	260	236	10.4%	206	26.3%
Other income	30	42	-29.7%	36	-18.6%
PBT	789	712	10.8%	800	-1.4%
Share of profit/loss from associates	(1.15)	(1.88)	-38.7%	-	-
PBT	788	714	10.3%	800	-1.5%
Tax Expense	265	236	12.2%	254	4.4%
Tax Rate	33.6%	33.1%	*54bps*	31.7%	*189bps*
PAT	**523**	**478**	**9.4%**	**546**	**-4.2%**
EPS	**3.34**	**3.03**	**10.2%**	**3.49**	**-4.3%**

Source: Company, Arihant Research

Financial Performance

•Revenues came in at INR 11,337 Mn (8.6% QoQ) (+4.9% YoY) (+2.8% above our estimates)

•EBITDA came in at INR 1244 Mn (+10.1% QoQ) (+6.2% YoY) (+3.3% above our estimates)

•EBITDA Margins came in at 10.98% (expansion of 16bps QoQ) (Vs 14 bps YoY) (-2bps against our estimates)

•PAT came in at INR 523 Mn (+9.4% QoQ) (down 4.2 Mn YoY) (+0.6% above estimates)

Investment Rationale

Exhibit 3: Alloy Wheel

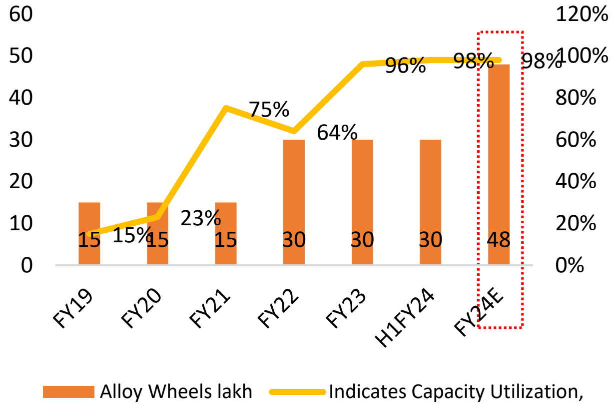


Exhibit 4: Increased volumes from alloy wheel sales (In lakh units)

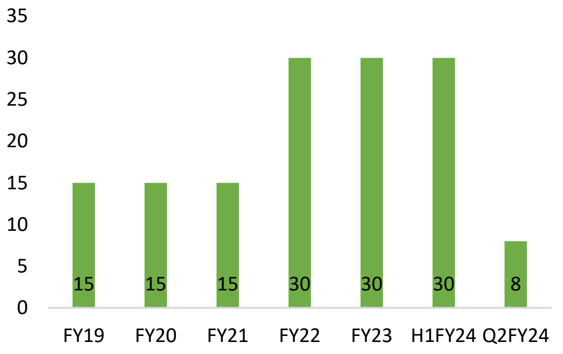
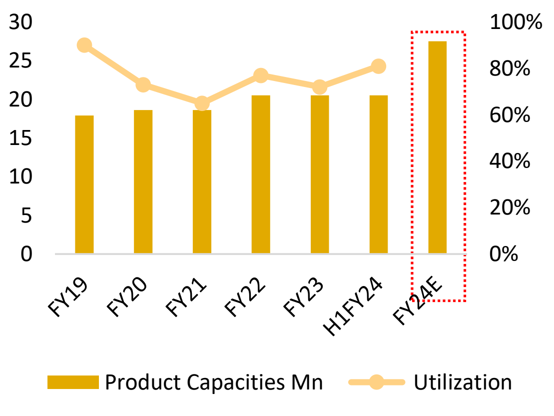


Exhibit 5: Product Capacities Lakhs



Expanding Alloy Wheel Capacity Sparks Significant Company Growth: SSWL's profitability is expected to enhance over the next two-three years through achieving the best possible capacity utilization due to the revival in the automotive sector. **Alloy Wheels Capacity to be expanded by 60% i.e. 18 lakh Wheels at Mehsana Plant, Gujarat. SSWL is looking forward to increase its global presence with major focus on alloy wheels**. The company is expanding capacity to cater this global opportunity and take up global market share of 1% in next 3 years.

Strategic Growth: Incremental Steel Wheel Capacity Expansion Alongside AMW Acquisition: The passenger steel wheel division contracted by 14%, while the two-wheeler and three-wheeler segments expanded by 4.5%. Overall, the company achieved a commendable 8% growth on a weighted average scale. However, this growth was primarily affected by the decline in the steel wheels for passenger cars. **The decline in the PV segment was largely due to the decision to discontinue a few Maruti businesses with low value addition. These businesses contributed a mere 4% to 5% EBITDA, prompting the company to prioritize avoiding low-margin ventures.**

In response to significant input cost escalations in recent years, the company is now assertively addressing these cost hikes from OEMs. This resolute stance aims to recover all the input increases endured over the past two years. The decision to discontinue the passenger car steel wheel business aligns with this strategic approach. By FY24 end, 70 Lakhs Steel Wheel capacity to be added in phased manner, post acquisition of AMW Auto Components Limited. Additionally, the Indian passenger car sector expanded by 11% YoY. Despite achieving an overall growth of 8%, inability to outpace industry growth is primarily attributed to discontinuation of the steel wheel business with Maruti. Typically, SSWL's exceed industry growth rates.

Exhibit 6: Product Capacities Lakhs

Key Customers MHCV	Key Platforms	Share of Business
Ashok Leyland	Ecomet, Ross, Viking, Cheetah	55%
TATA Motors	Ultra LPK1512,LPK1518,2518,3718,3118,4218	42%

Exhibit 7: Key Customers in PV

Key Customers in PV	Key Platforms	Share of Business
Maruti Suzuki	Ciaz, Baleno, Scross, Brezza, Celerio	42%
Hyundai	Venue, Xcent, Grandi10, Verna	45%
Mahindra	KUV, TUV, XUV	50%
Honda	Mobilio, WRV, Jazz Amaze, City	50%
MG Motors	Hector	100%
Kia	Seltos, Carnival, Sonet	55%

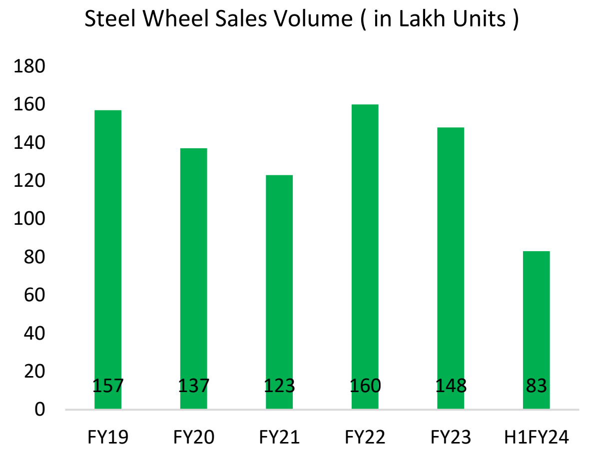
Source: Company, Arihant Research

Exhibit 8: Key Customers Tractor /OTR

Key Customers Tractor/OTR	Key Platforms	Share of Business
Mahindra	Jivo, Arjun, Yuvraj, Dhruv	57%
Sonalika	D1745, D16TRX, RX47	45%
Eicher	551, 548, 485	35%
JCB	3DX, 4DX, Export Model	60%
New Holland	5500, 7500	40%

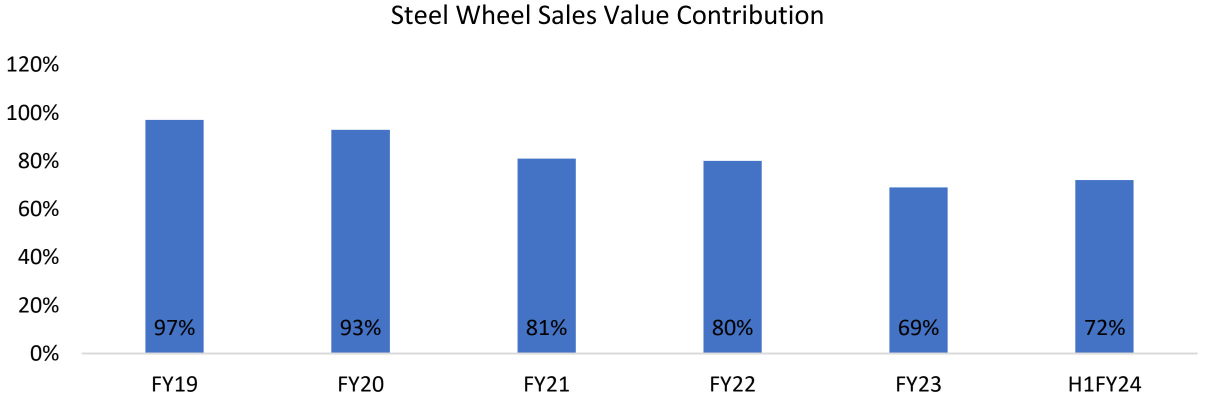
Customized Timeline: Customer-to-Customer Variations in the Span from RFQ to SOP
The timeline varies from customer to customer, spanning from the RFQ stage to the SOP stage. This period might extend anywhere from 2 to 4 months or even up to 9 months, contingent upon the customer's urgency and requirements. Additionally, factors such as testing and potential delays for OEMs can further contribute to the timeline, resulting in a range of approximately 2 to 7 months for the overall process.

Exhibit 9: Steel Wheel Sales Volume (in Lakh Units)



Leading beneficiary of domestic commercial vehicle revival, especially in high-volume segment: SSWL is poised for substantial gains, capitalizing on its commanding 53% market share in the rapidly advancing MHCV sector. Notably, the commercial vehicle (CV) segment within the company showcases a robust mid-teens range margin. To further leverage this promising landscape, the company has strategic plans to escalate its CV capacity. This is particularly significant considering the burgeoning success of the CV industry in India, predicted to experience a prolonged cyclical uptrend spanning the next three to four years. Presently, SSWL's CV production capacity is fully allocated, to the extent that it faces constraints in aluminum production capacity. This underlines the urgency for augmented capacity in the CV sector. The timely entry of AMW aligns perfectly with their growth trajectory and mitigation strategies.

Exhibit 10: Steel Wheel Sales Value Contribution



Source: Company, Arihant Research

Pick up in Export market led by multiple RFQs from US/Europe: Exports volume grew by over 109% YoY in Q2FY24, indicating the desired pick-up in the export market. The company is receiving 2 RFQs from export. Exports revenue guidance is INR 6000 Mn in FY24, significantly up from the impacted base of INR 2920 Mn in FY23 (vs. the erstwhile base of INR 8290 Mn in FY22).For Alloy Wheels exports, the company is confident of achieving revenue of INR 800-1000 Mn in FY24 and an even higher revenue of INR 3000 Mn in FY25. Export sales are performing well, and increased exports may result in additional orders.

Exhibit 11: Region Wise Export Revenue Contribution

Vietnam is main competitor for export of steel wheels.

The rise in aluminum wheel sales will certainly boost exports' EBITDA per wheel. While they have expanded exports, a slight price reduction was necessary to regain lost market share from the previous year. Inventory adjustments caused challenges, but as previously mentioned, they returned to export strength. The numbers will be impressive, although with a slightly lower EBITDA margin, still maintaining a strong double-digit margin. While previously operating at around 20%, it's now around 17.5%, which, although not significant, is a point to acknowledge. We believe, the company has exponentially more orders from exports.

Exhibit 12: Region Wise Export Revenue Contribution

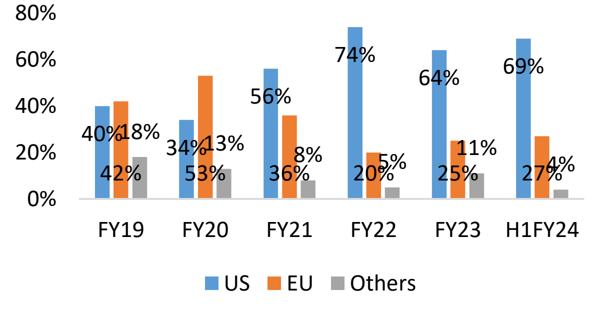


Exhibit 13: Region Wise Export Revenue Contribution

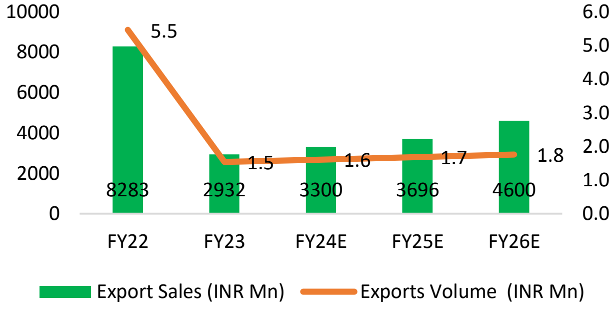


Exhibit 14: Increased Volumes from Exports (in Lakh Units)

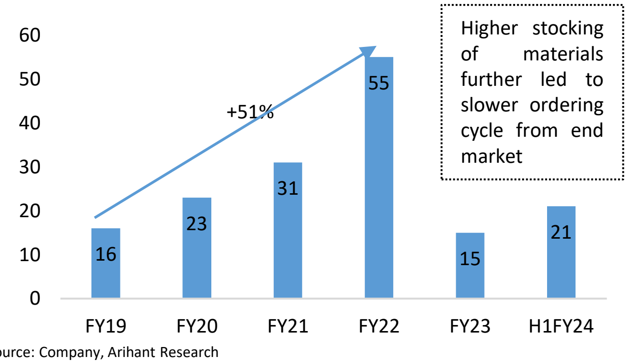
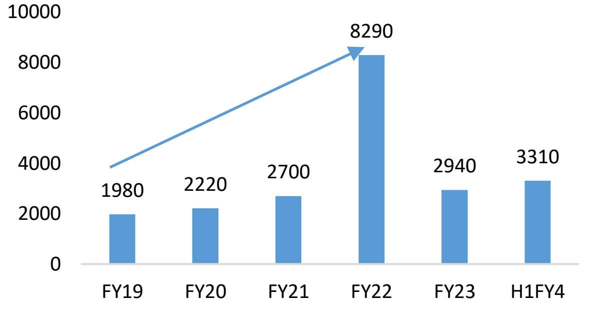


Exhibit 15: Increased Revenue from Exports (in Mn Units)



Source: Company, Arihant Research

EBITDA Per vehicle

EBITDA Margin (per steel wheel) consolidated ~INR 250rs per wheel in FY23 and a similar trend will be maintained in the near term. Yet, with improved export prospects and increasing alloy wheel volumes, the management exhibited a more positive outlook this time and did not dismiss the possibility of raising its guidance in H2FY24. The company also alluded to a new automotive casting venture and a two-wheeler electric vehicle business that will bolster margins in the coming years, beginning to impact the topline from Q4FY24. Given the upward trajectory of alloy wheel sales, a cautious estimate includes an EBITDA per unit of INR 260 in FY25, compared to approximately INR 250 per unit in FY23.

Indicative of the domestic auto industry, the presence of alloy wheels has had a favorable impact on SSWL

SSWL operates within an oligopolistic industry framework, acting as a reliable indicator of the underlying growth in the domestic automobile sector. The demand outlook remains stable for steel wheels, while the alloy wheel segment is experiencing robust growth, driven by the increasing adoption of SUVs and the ongoing trend of premiumization in the passenger vehicle and 2w segments. SSWL serves as a supplier to all major OEMs. Benefiting from maximum utilization in the alloy wheel segment, SSWL is actively expanding its capacity in this field, intending to increase production from the current approximately 3 mn units to around 4.8-5 mn units by FY25. This expansion is accompanied by realizations in the alloy wheel sector that are around 3x-4x steel rim and EBITDA/unit at ~2x the base business. **Steel: Alloy wheel share of sales improved to 69:31 in FY23 against 80:20 as of FY22.**

Advancing Efficiency: Robotic Automation for Rationalizing Operating Costs

The company’s immediate focus revolves around two key objectives. Firstly, they are aiming to enhance productivity and reduce costs by leveraging advanced equipment sourced from external markets. This entails acquiring higher-capacity production machinery and strategically integrating them across various facilities. This strategic move is poised to amplify operational efficiency, contributing to elevated productivity levels and improved cost-effectiveness.

Simultaneously, company commitment to automation has been substantial. While it might not have been extensively discussed, it's worth noting that the company has successfully deployed around 90 robots in the previous fiscal year. Notably, company flagship facility, which stands as the world's oldest and largest single-roof factory, has undergone a remarkable transformation into an extensively automated operation. This progression underscores SSWL dedication to embracing cutting-edge technologies to streamline processes and achieve greater operational excellence.

Entry into the Electric Vehicle Market; New Investment for the company

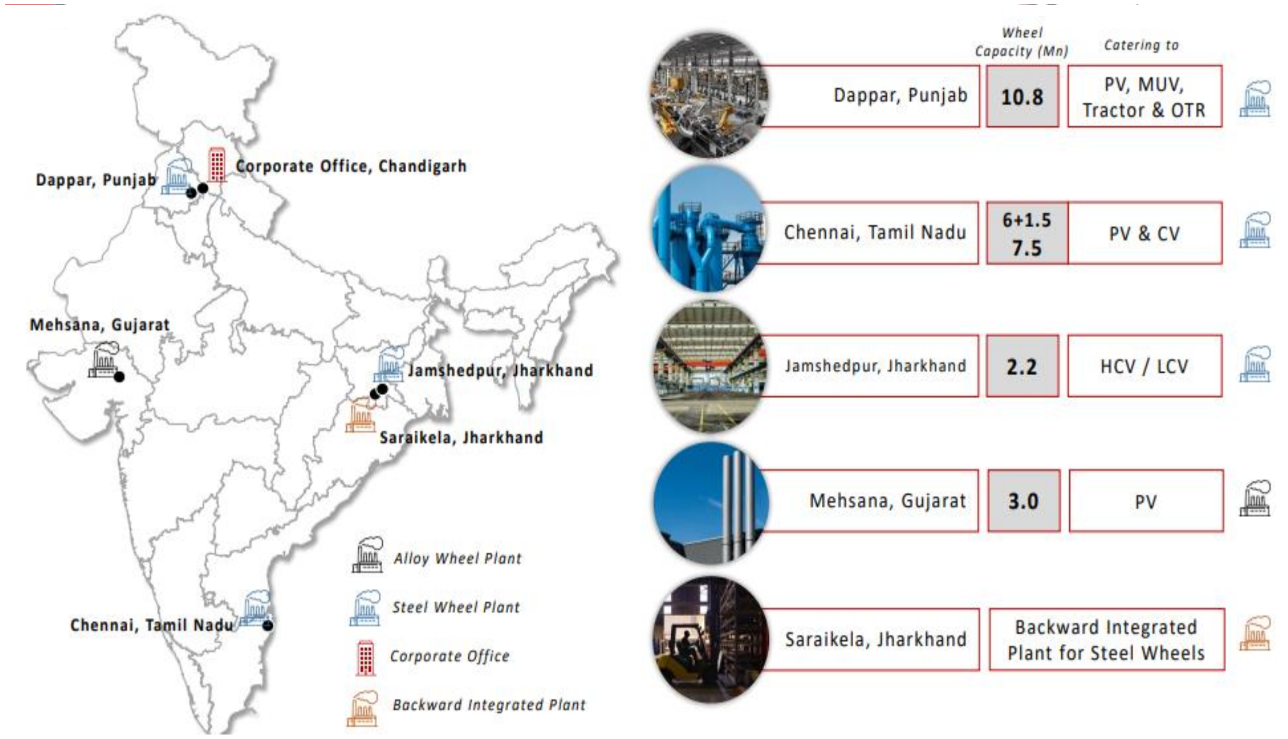
The company has made a substantial investment of INR 10 Mn in the EV sector, specifically focusing on the two-wheeler segment. This strategic move demonstrates the company's forward-thinking approach, as it positions itself at the forefront of the evolving automotive industry. This significant financial commitment to the EV business underscores the company's dedication to embracing futuristic technologies and trends, highlighting its willingness to adapt and capitalize on emerging opportunities in the market.

Exhibit 16: Customer based

Source: Company, Arihant Research

Company has strong client based: SSWL holds the distinction of being recognized as a tier 1 supplier for renowned OEM customers, which includes Tata Motors, Ashok Leyland, Diamler Benz, VECV, Swaraj Mazda, M&M, Escorts, JCB, L&T, BEML, New Holland, Kubota, TAFE, Sonalika, John Derre, Maruti Suzuki, Hyundai, Kia Motors, MG Motors, VW, Honda Motors, BMW, Nissan, Jaguar, Land Rover, HMSI, Piaggio etc. It is present in almost all the major models of these OEMs in range of 40-100% of the vehicles produced.

Exhibit 17: R&D

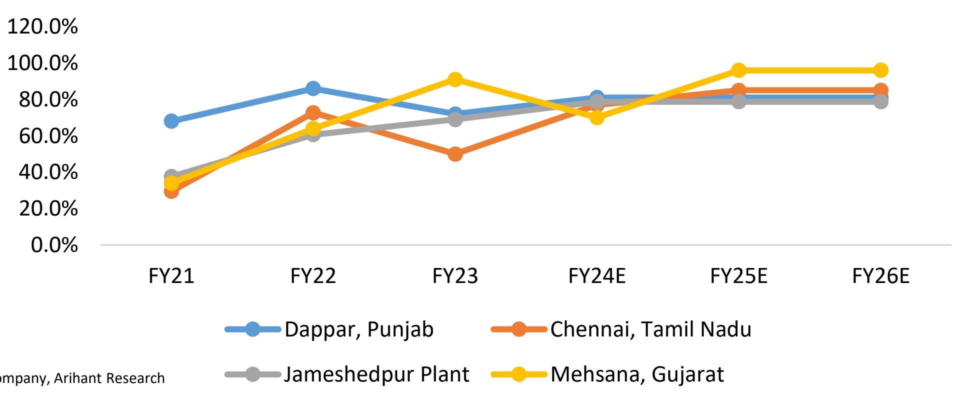


Source: Company, Arihant Research

Cutting-edge Infrastructure

Consciously, the company has brought on board approximately 60 individuals within the R&D department. This strategic move is aimed at equipping them for an imminent expansion that has either already taken place or is currently underway. A notable development in the expansion of the castings business pertains to the augmentation of aluminum wheel capacity from 3 mn units to 4.8mn units. This enhancement is presently in progress. Simultaneously, a considerable number of fresh ventures from both the American and European markets are being directed to them. This surge in new projects has necessitated the recruitment of additional R&D personnel. As a result of these concurrent endeavors, any significant enhancement in EBITDA percentage or per wheel margin might not be immediately evident. This is solely due to the incorporation of these supplementary elements into the operations.

Exhibit 18: Plant Wise Capacity Utilization



Source: Company, Arihant Research

Collaborative Alliances

Tata Steel Limited, holding a 6.94% stake in SSWL, formed a Strategic Alliance Agreement in 2008, aiding in supply chain management and new grade development. Sumitomo Metal Industries, now Nippon Steel & Sumitomo Metal Corporation with a 5.43% stake, established an alliance in 2010, contributing international steel expertise and technology exploration, backed by a 400-year manufacturing history from the Sumitomo Group.

Financial Analysis

Revenue growth led by Alloy wheel segment

Alloy Wheels exports, the company is confident of achieving revenue of INR in FY25. 800-1000 Mn in FY24 and an even higher revenue of INR 3000 Mn. Export sales are performing well, and increased exports may result in additional orders.

Exhibit 19: Revenue expected to grow by 12% over FY22-FY26e

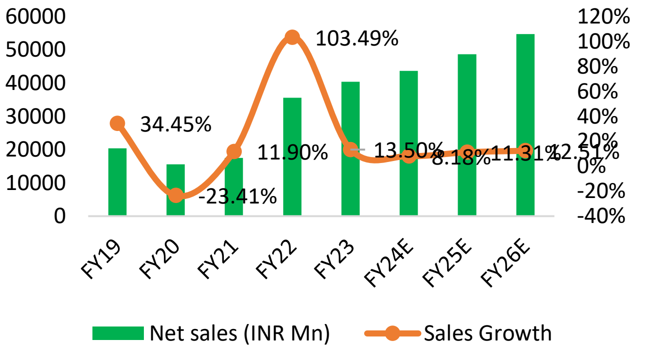


Exhibit 20: Employee expenses expected to high due to hiring for the expansion

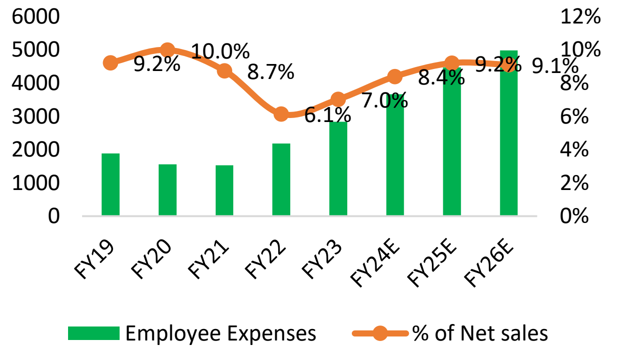


Exhibit 21: EBITDA expected to grow by 11.5% over FY22-FY26e

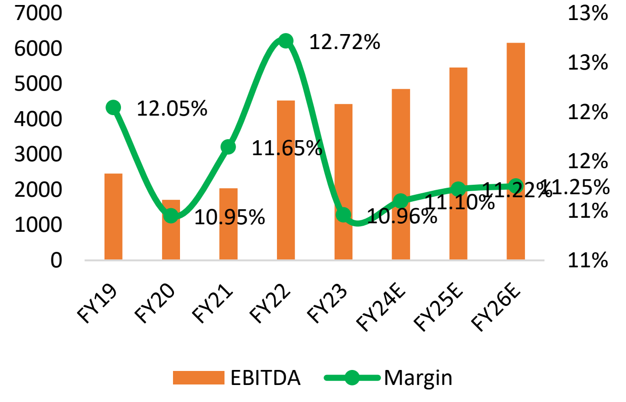


Exhibit 22: Margin expected to improve further led by alloy wheel

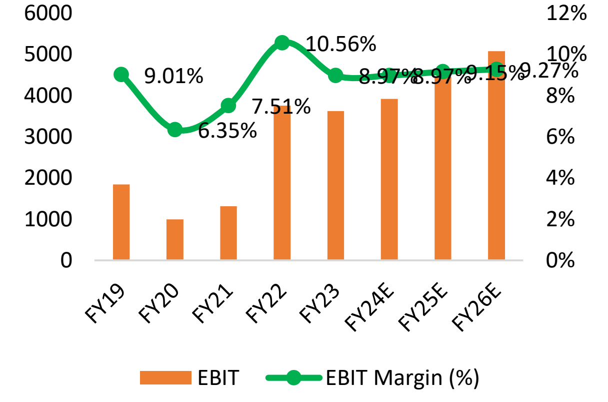


Exhibit 23: Alloy wheel volume expected to grow by 22.8% over FY22-FY26e (In Mn)

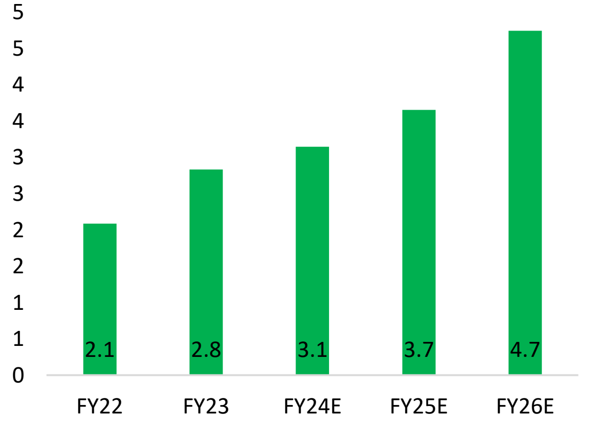
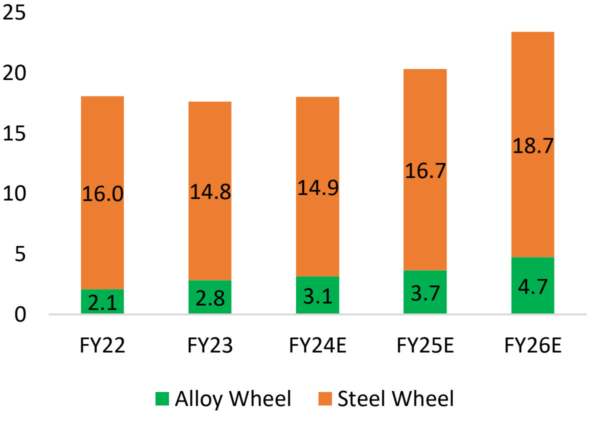


Exhibit 24: Alloy wheel contribution to EBITDA to improve with volume



Source: Company, Arihant Research

Financial Analysis

Exhibit 25: Net profit trend in the upcoming years (INR. Mn)

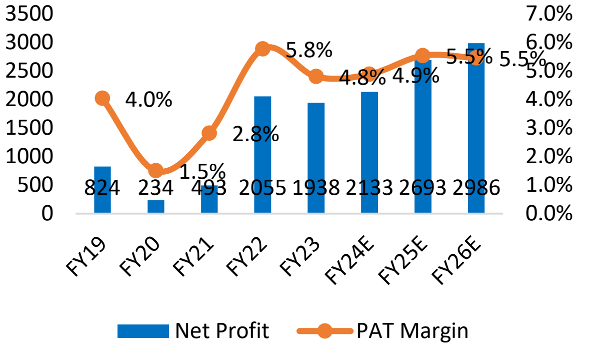
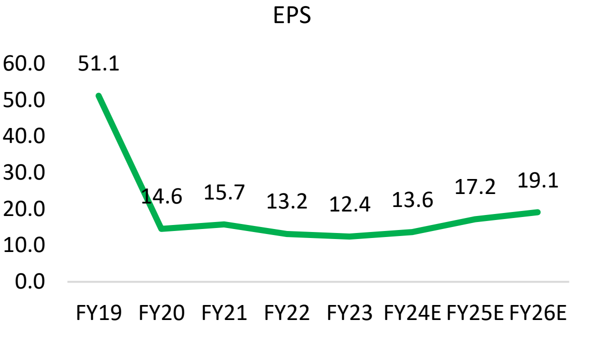


Exhibit 26: EPS trend expected to improve further



Focus on reducing Debt; Enhanced Return Ratios Around 20%: After peaking at approximately INR 10,000 Mn in FY20, SSWL's debt has been consistently decreasing due to robust CFO generation and controlled capex outlay. As of FY23, the gross debt has diminished to ~INR 6400 Mn and is projected to further decline to below INR 5,500 Mn by FY25E. This has led to a notable improvement in return ratios, progressing from around 10% in FY20 to about 20% in FY23. This positive shift is likely to prompt a re-rating of the stock, as the company now aligns with investment criteria, committed to sustainable and profitable growth. Over the period from FY22 to FY25E, SSWL is anticipated to generate an average CFO of approximately INR 4000 Mn, with a commendable average CFO yield of around 13%.

Exhibit 27: FCF from operations (INR. Mn)

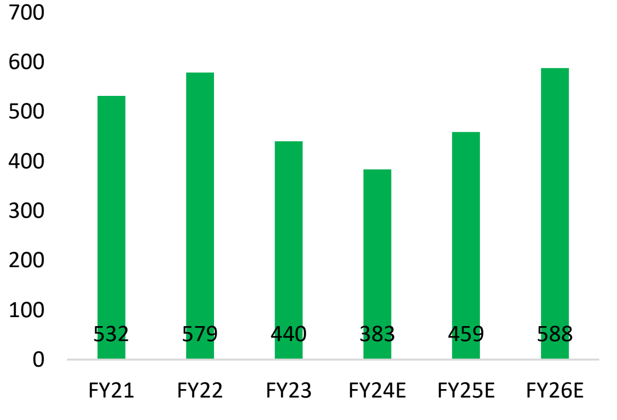


Exhibit 28: Improving profitability coupled with asset turn to drive Return ratios

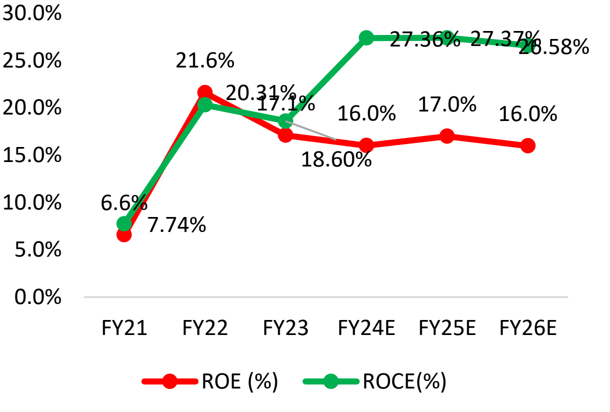


Exhibit 29: The management expects to repay INR 600 Mn in FY24 in long term debt.

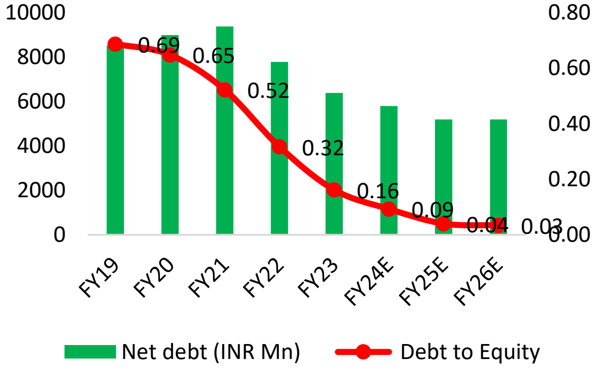
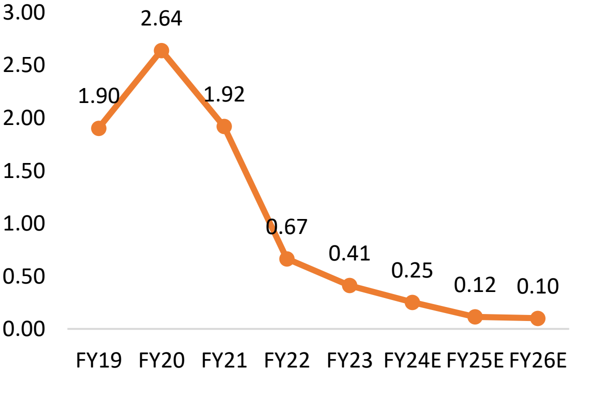


Exhibit 30: Debt to EBITDA trend



Source: Company, Arihant Research

Risks & Concerns And Mitigation

Risks Type	Key Risks	Impact on SSWL	Mitigation
Strategic Risk	Global Economic Scenario	Vehicle purchase across different segment has strong correlations with GDP growth. The decision to purchase a passenger vehicle comes under customers' discretionary spending (Passenger Vehicle) which is linked to their perception of business outlook. Depressed economic outlook can impact this spending and thereby constrain the Company's growth potential	Diversified product mix, segment mix and customer mix. Target newer market segments which might provide counter-cyclical support
	Long term growth dependent on of capacity expansion	Capacities utilization across all the plants are inching up gradually and with business environment turning favorable growth in long term will be dependent on Capacity addition	Debottlenecking exercise across all the facilities are being carried every quarter. Optimum scheduling of production across different products thereby improving yield. Possibility of setting up new lines wherein Company has project Management expertise.
Operation Risk	Supply chain disruption.	The raw material (Steel & Aluminium) accounts for 60-65% of the cost, poses a key risk as it may be subject to supply disruption and market price volatility.	The Company maintains significant integration of raw materials for its Operations. To achieve greater raw material security, company enters into long term MOU with suppliers. Development of alternate sources for uninterrupted supply of key raw material.
	Employee Productivity and retention	Employee involvement and productivity is one of the key factors to be competitive in industry. Being a labour intensive sector employee welfare assumes significance.	Company has strong commitment towards creating and providing safe working environment for its employee and stakeholders. Focused approach to retain key talent through multiple initiatives including providing cross functional access and experience. Focus on employee engagement. Increased focus on offering learning opportunities with allocation of funds for training requirements.
	Competition	The Company faces competition in the business field it operates in. As a result, the Company is exposed to dual risk of either being displaced by existing or new competitors or its products being replaced by product innovations and new technological features. Customer dissatisfaction on price, quality, delivery performance, and design could lead to loss of market share.	The Company ensures close cooperation with its key customers on product development. It has implemented strict product quality controls in order to reduce the likelihood of substitution. The company remains ahead on technology front on light weighting the products to offer best in class products to its customer.
Financial Risk	Currency Volatility	Volatility in currency exchange movements resulting in transaction and translation exposure.	Board approved Currency hedging policies and practices are in place. Close monitoring of hedging strategy by risk management committee. Quarterly assessment of foreign exchange exposure by Board.
	Debt Burden	The Company's outstanding indebtedness in an adverse environment can have significant impact on financial flexibility and business as a whole	Close monitoring of debt profile and continuous effort to bring the cost in line with industry. Continuous effort to maintain the impeccable credit history. Quarterly review of financial leverage and efforts are on to move towards industry benchmark.
	Credit Rating	Failure to maintain credit ratings could adversely affect cost of funds.	Regular exchange of information and updates with agency. Focused approach to work on areas of improvement and to build upon areas of strength. Close monitoring of triggers highlighted in rating rationale.
	Social costs	SSWL's assumptions while estimating social cost like gratuity funding are subject to capital market and actuarial risks and any shortfall could put pressure on financial performance.	A framework to manage social cost risks has been deployed to ensure that obligations remain affordable and sustainable, whilst protecting the asset market exposure.
	Credit Risk	Customer default can pose a significant challenge and impact the bottom line of the Company.	Systems are in place to assess the credit worthiness of new as well as existing customers
	Financial Fraud	Financial fraud can challenge the reputation as well existence of the Company besides denting the confidence on the systems in place.	Adequate Internal financial control system in place. Adequate accounting records are in place to safeguard the assets of Company and for preventing and detecting frauds. Vigil Mechanism in place that provides a formal mechanism for all Directors, employees and vendors of the Company to approach the Ethics Counselor/Chairman of the Audit Committee of the Board and make protective disclosures about the unethical behavior, actual or suspected fraud.
Legal Risk	Regulatory environment & compliance	The Company is subject to numerous laws, regulations and contractual commitments. Any failure to comply with same may impact the Company adversely	The Company has policies, systems and procedures in place with a strong commitment from the Board and the Executive Committee towards compliance.

Source: Company, Arihant Research

Risk & Outlook

- **Raw Material**: Steel & Aluminum is the primary raw material for the products of the company and is a very significant part of the final product cost of Steel & aluminum wheel. Rising steel & aluminum prices continue to be a reality and pose a challenge to inventory and financial management for the company in this competitive auto component sector. Concerns of global economic slowdown, the Impact of war in Ukraine and the Risks of stagflation envisaging numerous market scenarios are pressing the need for Auto- industry players to be more vigilant and forward-looking.

- **COVID-19** has changed the dynamics of supply chain which is further influenced by the burgeoning drive for a cleaner and sustainable environment. Factor of global growth has become a key linkage between economies and the consumer sentiment. Global growth is still limping on weak wicket and manufacturing output is still shrinking for a large part of the globe. The world economies are making a base after financial crisis and will keep the growth parameters for company in check as the cross border trade is suffering due to low consumption.

- The company constantly de-risking by broadening product reach and extending reach across the globe to avoid geographical slowdown risk. Top customer concentration is a risk as >90% of revenues come from domestic market customers and company is increasing its foot print in Export markets by catering to wide ranges of segment and customers.

- The company has ventured into alloy wheel segment to improve the product category to de-risk itself from being only in steel wheel segment. Company is also moving ahead on Alloy wheel market development to further de-risk the steel wheel dependency from Domestic and export customers. Foreign currency movement also poses the risk towards the corporate performance as global currencies swings are extreme due to various macro issues persisting in current environment.

- This may act as a headwind for some time to come till situation becomes normal and volatility among global currency recedes to normalized levels. To mitigate the risk, the Company continues to strive to improve its operational performance and develop new components, which are technologically superior and have an edge over the competitors. While, the company’s demand outlook is strong, approach is to remain vigilant to ensure that the company is agile and evolve dynamically.

Industry Overview

The automotive industry makes a significant contribution to the global economy. As per SIAM figures, the industry produced a total of 2,59,31,867 vehicles in financial year 2022- 23 as against 2,30,40,066 vehicles in previous year, registering a growth of 12.55%. The production of Passenger Vehicles increased by 25.42% (45,78,639 vehicles)

Exhibit 31: Automobile Production Trends

Category	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Passenger Vehicles	4,020,267	4,028,471	3,424,564	3,062,280	3,650,698	4,578,639
Commercial Vehicles	895,448	11,12,405	756,725	624,939	805,527	1,035,626
Three Wheelers	1,022,181	12,68,833	1,132,982	614,613	758,669	855,696
Two Wheelers	23,154,838	2,44,99,777	21,032,927	18,349,941	17,821,111	19,459,009
Quadricycles	1,713	5,388	6,095	3,836	4,061	2,897
Grand Total	29,094,447	4,033,859	26,353,293	22,655,609	23,040,066	25,931,867

PV sales in the financial year 2022-23 has recorded a growth of ~27%. Total of 38.9 lakhs PV were sold during the financial year 2022-23 as against 30.7 lakhs in the previous financial year 2021-22. The CV market is very near to its all-time highs achieved in financial year 2018-19 and expect the CV industry to surpass the old benchmark in FY 2023-24.

Exhibit 32: Automobile Domestic Sales Trends

Category	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Passenger Vehicles	3,288,581	3,377,389	2,773,519	2,711,457	3,069,523	3,890,114
Commercial Vehicles	856,916	1,007,311	717,593	568,559	716,566	962,468
Three Wheelers	635,698	701,005	637,065	219,446	261,385	488,768
Two Wheelers	20,200,117	214,479,847	17,416,432	15,120,783	13,570,008	15,862,087
Quadricycles	-	627	942	(12)	124	725
Grand Total	24,981,312	219,566,179	21,545,551	18,620,233	17,617,606	21,204,162

Source: Company, Arihant Research

The domestic automotive industry is expected to grow at high single-digit levels in 2023-24. The demand for the PV segment is expected to grow at 6-9%, CV by 7-10%, 2w by 6-9% and Tractors by 4-6% in FY 2023-24. The domestic demand scenario is improving with 2/3 wheeler segment drag-down coming to an end. The bottoming out of 2/3 wheeler, CV will help stabilize the production levels of the country. The infrastructure spends led improvement will spread widely and further improvement in these segments will be visible in FY2023-24.

Exhibit 33: Export

Category	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Passenger Vehicles	748,366	676,192	662,118	404,397	577,875	662,891
Commercial Vehicles	96,865	99,933	60,379	50,334	92,297	78,645
Three Wheelers	381,002	567,683	501,651	393,001	499,730	365,549
Two Wheelers	2,815,003	3,280,841	3,519,405	3,282,786	4,443,131	3,652,122
Quadricycles	1,605	4,400	5,185	3,529	4,326	2,280
Grand Total	4,042,841	4,629,049	4,748,738	4,134,047	5,617,359	4,761,487

Source: Company, Arihant Research

Exports of alloy wheel presents a long term trend for the company and has the potential to reach INR 10,000 Mn of exports by FY2025-26.

Opportunities: SSWL is looking forward to increase its global presence with major focus on alloy wheels. They are expanding capacity to cater this global opportunity and take up global market share of 1% in next 3 years. The global automobile market growth will remain a focus area and presents huge opportunity for SSWL to grow. The alloy wheel segment of the company has the potential to grow at >15% volume growth each year with export opportunity.

Threats: The global economic growth remains a big risk for the industry. The rising interest rates globally will surely slow down the economic activity around the world. The sentimental impact of higher rates remains a big risk for consumption growth of the world. An economic downturn or slowdown in the key markets (India and Europe) may lead to decrease in volumes and capacity utilization. Volatile exchange rates, Price Competition, disruption in supply chain and fears of aggravation in Russia-Ukraine war are some of the threats. It may increase the operating cost of running the business. Increase in cost of key inputs can impact the profitability of the Company.

Industry Overview

Automotive Steel Wheels Market Outlook – 2027

Automotive steel wheels are round shaped rims on which the tires are mounted. These are both stronger and cheaper when compared to the alloy wheel. Steel wheels help enable movement as well as it has to carry the whole weight of the vehicle. Further, the automotive sector across the world has been under continuous pressure to modernize and find new ways to develop energy efficiency and reduce carbon discharge, which increases the adoption of stainless steel in the automotive sector. The high acceptance for steel wheels is likely to drive the automotive steel wheels market growth.

Increase in demand for lightweight steel wheels

Various government policies regarding heavy vehicles have been formulated because of which lightweight steel wheels were introduced to bring a significant weight reduction in the vehicle with a higher toughness. Heaviness of a vehicle increases the fuel consumption coupled with increase in air pollution as well as the speed of the vehicle. Many automotive companies are investing in development of the lightweight and fuel efficient vehicles. For instance, automotive manufacturers, such as BMW and Mercedes, have already started to scale-up their production of fuel-efficient cars through weight reduction by using lightweight steel wheels. Therefore, increase in demand for steel wheels will boost the growth of the automotive steel wheels market.

Globally Alloy wheel

Technological advancements have propelled the alloy wheels market, enhancing manufacturing precision and efficiency. Despite potential production errors and higher costs, the market benefits from increased use in luxury and high-performance vehicles, particularly in Asia-Pacific countries such as China, India, and Japan, which continue to drive growth. Asia-Pacific remains the dominant market due to a thriving automotive industry and rising demand for high-performance vehicles, promising continued expansion.

Growing Demand for Fuel-efficient Vehicles and Weight Reduction Sector to Drive the Market Growth

The alloy wheels market is thriving due to the rising demand for fuel-efficient vehicles. Automakers are investing in lightweight components like alloy wheels to enhance fuel efficiency and reduce carbon emissions. Alloy wheels, made from aluminum and other metals, are lighter than steel wheels, resulting in lower fuel consumption and increased environmental friendliness. The trend of vehicle weight reduction for improved fuel efficiency and performance is further boosting the popularity of alloy wheels, known for their high strength-to-weight ratio and aesthetic appeal, among consumers. This growing demand for fuel-efficient and lightweight vehicles is a key driver of the alloy wheels market in the automotive industry.

Use of Alloy wheels as an increase of the automotive industry to Drive Excellent Opportunities

Alloy wheels are favored by car enthusiasts for their aesthetic appeal and benefits like enhanced performance, fuel efficiency, and reduced weight. The automotive industry's growth in emerging economies, such as China, India, and Brazil, is driving demand for alloy wheels, especially in customized options, while the push for green vehicles and emission reduction further fuels the demand for lightweight alloy wheels, presenting a substantial opportunity for eco-friendly wheel manufacturers to cater to this growing market.

Outlook & Valuation

The turnaround in export and a strong order book on the export front will help in FY24 growth. The company targeting to increase MS in alloy wheels. Working on improving ROCE in the long term instead improve margin in the near term. ***At a CMP of INR 279, SSWL is trading at a EV/EBITDA of ~7.1x to its FY26E EBITDA of INR 6,158 Mn. We have used a DCF Model to SSWL. AMW is increasing its investment, taking advantage of the extended positive trend in the CV upcycle, and benefiting from the additional demand generated by the Motor+ Controller EV business. We have valued AMW to its Capex of INR 1580 Mn with PV (FY26e) of INR 550 Mn for the value per share of INR 3.51. We initiate coverage with a "BUY" rating at a Target Price of INR 410 per share based on DCF; an upside of 47%.***

Valuation Assumptions	
g (World Economic Growth)	3%
Rf	7%
Rm	15%
Beta (2 Yr)	1.1
CMP (INR)	279

AMW (INR Mn)	
IRR	**15%**
Capex (FY24e)	1580
PV (FY26e)	550
Value per share	**3.51**

Valuation Data	
Total Debt (long term borrowings) (2022)	
Cash & Cash Equivalents (2022)	
Number of Diluted Shares (2022)	
Tax Rate (2023)	33%
Interest Expense Rate (2023)	
MV of Equity	43,667
Total Debt	7,779
Total Capital	**51,446**

WACC	
We	84.9%
Wd	15.1%
Ke	15.2%
Kd	10.0%
WACC	**14.40%**

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
EBIT * (1-Tax Rate)	5,235	4,454	5,837	5,846	6,632	7,756	8,890	9,983	10,979	11,819	12,448	12,822
Dep	929	1,005	1,082	1,161	1,238	1,316	1,509	1,695	1,864	2,006	2,113	2,176
Purchase of Assets	1,634	1,634	1,634	1,634	1,634	1,634	1,873	2,103	2,313	2,490	2,622	2,701
Changes in Working Capital	867	(848)	(1,741)	(2,207)	(2,952)	(2,668)	(3,058)	(3,435)	(3,777)	(4,066)	(4,283)	(4,411)
FCFF	8,665	6,245	6,813	6,434	6,552	8,038	9,213	10,346	11,378	12,249	12,901	13,288
% Growth in Post Tax EBIT		-14.9%	31.1%	0.1%	13.4%	16.9%	14.6%	12.3%	10.0%	7.6%	5.3%	3.0%
As % of Post Tax EBIT												
Dep	17.8%	22.6%	18.5%	19.9%	18.7%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Purchase of Assets	31.2%	36.7%	28.0%	27.9%	24.6%	21.1%	21.1%	21.1%	21.1%	21.1%	21.1%	21.1%
Changes in Working Capital	16.6%	-19.0%	-29.8%	-37.7%	-44.5%	-34.4%	-34.4%	-34.4%	-34.4%	-34.4%	-34.4%	-34.4%
FCFF	8,665	6,245	6,813	6,434	6,552	8,038	9,213	10,346	11,378	12,249	12,901	
Terminal Value											116,581	
Total Cash Flow	**8,665**	**6,245**	**6,813**	**6,434**	**6,552**	**8,038**	**9,213**	**10,346**	**11,378**	**12,249**	**129,481**	

Enterprise Value (EV)	**70,771**
Less: Debt	**7,779**
Add: Cash	**579**
Equity Value	**63,571**
Equity Value per share (INR)	**406**
AMW (Value Per share)	**3.51**
Total	**410**
% Returns	**47%**
Rating	**BUY**

Sensitivity Analysis

		Terminal Growth (%)								
	406	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%
WACC (%)	13.4%	429	435	441	447	454	461	469	476	485
	13.7%	418	423	429	435	441	448	455	462	470
	13.9%	407	412	417	423	429	435	**441**	448	455
	14.2%	396	401	406	411	417	**423**	429	435	442
	14.4%	386	391	395	400	**406**	411	417	423	429
	14.7%	376	381	385	**390**	395	400	405	411	417
	14.9%	367	371	**375**	380	385	389	395	400	405
	15.2%	358	362	366	370	375	379	384	389	394
	15.4%	350	353	357	361	365	370	374	379	384

Source: Company, Arihant Research

Company Overview

Major events and milestones of the Company

Year	Event
1991	Commencement of First Steel Wheels Commercial Production at Dappar Plant, Punjab
2002	Start of 2W & Tractor Wheels Production
2006	Start of LCV Wheels Commercial Production
2007	Start of Commercial Production for Exports Market by supplies of PV to PSA 2007 Peugeot Citroen, France & HCV Wheels
2008	Start of Production at Chennai Plant
2009	Developed Semi Full face Styled wheel for Renault Romania
2010	Start of Commercial Production at Jamshedpur Plant
2017	Production Start of Truck Wheels at Chennai Plant Production Start of PV Alloy Wheels at Mehsana Plant with 1.5 Mn Capacity Production of Hot Rolling Mills at Saraikela, Jharkhand primarily for backward integration for Steel wheels
2021	Alloy Wheel Capacity Expanded to 3 Mn wheels at Mehsana Plant
2021	Logged Highest ever Turnover in FY23 of INR 40,410 Mn with ~176 Lakh wheels units Sold

Products

Steel Wheels – (~72%)

- **Robust Wheel** Steel Wheels are robust, fit, tough for rugged SUVs.
- **Competitive Pricing** Competitively priced; have higher acceptance in mass vehicles.
- **Suitability** More flexible, absorbs more shock, thus suitable for off-road and heavy duty applications.
- **Quick Maintenance**, Requires nothing more than hammering the bent portion into proper shape.

Alloy Wheels (~28%)

- **Aesthetics,** Have an enhanced aesthetic appeal, higher acceptance in high value PVs
- **Strength**, The higher strength-to weight ratio for alloy wheels leads to greater control and precision steering.
- **Free from Corrosion** Alloy wheels are known for their ability to resist corrosion.
- **Heat dissipation**, Alloy wheels disperse heat better and this decreases cracking and bending which also translates to more efficient braking.

Source: Company, Arihant Research

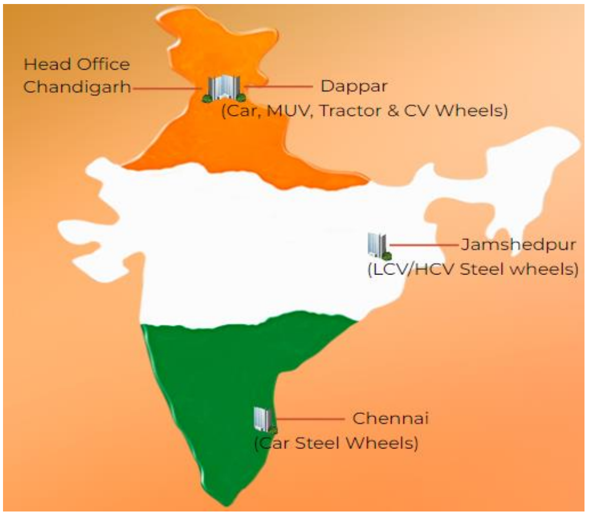
Business Overview

SSWL an Indian based Global leader in wheels will lead to support the EV market product penetration in India while Redler an experienced and dynamic high-tech Israel company through this JV will support in development of small and efficient Motion controllers for the EV market alongside low voltage micro-grids.

Steel Wheel

Products under the steel wheel category include - Tubeless, Multi-piece, High Vent Wheels, Semi fullface and Weight optimized (flow formed). Each wheel is meticulously manufactured under strict guidelines and goes through multiple tests like corner & radial fatigue test, impact test, bi-axial test, etc. to ensure its reliability and robustness.

Exhibit 34: Steel Wheel Manufacturing Facilities



High Vent Wheels

The wheel cover can be replaced with a new design at a relatively cheaper cost, which provides the optionality of multiple designs to the customer. By integrating the flow-forming process in this design, SSWL has been able to produce steel wheels that match the aesthetics of alloy-wheel at a substantially reduced cost.

Flow Formed Wheels

The flow-formed wheel can help in a reduction of up to 20% of the weight and has a price advantage when compared with alloy wheels.

The opportunity in PV exports

The company supplies spare wheel to the PV OEMs in the US and Europe.

Spare steel wheel in a car

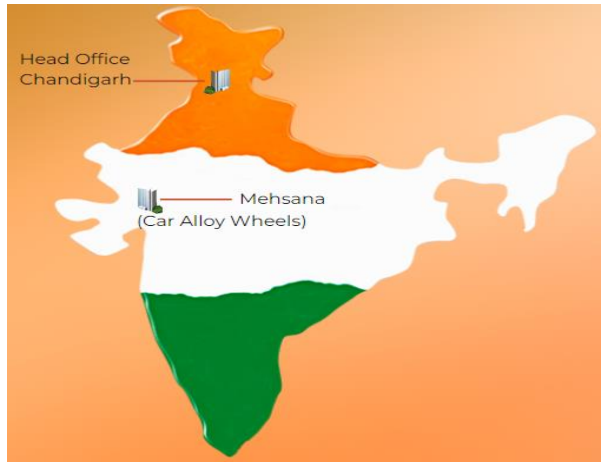
Global OEMs have confidence in SSWL's steel wheels

Source: Company, Arihant Research

Why Alloy Wheels

Less weight also means less strain on suspension components. In extreme driving conditions, alloy wheels are better able to dissipate heat away from brake components than their steel counterparts. The main differences between alloy and steel wheels lie in their durability, strength, and appearance.

Exhibit 35: Alloy Wheel Manufacturing Facilities



Diameter: 13 – 20 inches Width: 3.5-9 inches

Through LPDC (low pressure die casting process), can produce lightweight Fully painted & special Diamond cut (Face Machined) wheels, named so for its ultra-shiny surface and superior finish.

As with steel wheels, ensure that alloy wheels can maintain their performance, style, and reliability under extreme conditions. They go through a range of durability tests (like RFT, CFT, Impact, etc.) & to ensure that the wheel maintains its finish for a long period, post-paint tests like Salt Spray Test, CASS test, Corrosion cycle test, etc. are done.

While the company continue to expand product line to meet emerging customer requirements, currently, under both the categories of fully painted and face machined wheels, they can deliver wheels in the following size range.

Exhibit 36: Alloy Wheel Clientele

KIA | Ford | HYUNDAI | TATA MOTORS | Mahindra | RENAULT NISSAN MITSUBISHI | Volkswagen

Source: Company, Arihant Research

Exhibit 37: Shareholders (%)

Shareholder's Name	Category	23-Jun	23-Mar	22-Dec
TATA STEEL LIMITED	Public	6.94	6.94	6.94
Sunena Garg	Promoter	5.11	5.11	--
Sumitomo Metal Industries Ltd	Public	5.43	5.43	--
SAB UDYOG LIMITED	Promoter	7.3	7.3	7.3
SAB INDUSTRIES LIMITED	Promoter	8.46	8.46	8.46
R K Garg	Promoter	1.95	1.95	1.87
PRIYA TOOLS PRIVATE LIMITED	Public	3.37	3.37	3.37
MALWA CHEMTEX UDYOG LTD	Promoter	2.46	2.46	2.46
Investor Education And Protection Fund	Public	1.4	1.4	--
DHG MARKETING PRIVATE LTD	Promoter	3.2	3.2	--
Dheeraj Garg	Promoter	29.65	29.65	29.65
CHANDIGARH DEVELOPERS PRIVATE LTD	Promoter	3.64	3.64	

Fund (%)	23-Jun	23-Mar	22-Dec
Bandhan Mutual Fund	0.21	0.21	0.13

Source: Company, Arihant Research

Exhibit 34: Peer Comparison

Company Name FY23 (INR Mn)	Price (INR)	Market Cap (INR Mn)	Sales (INR Mn)	EBITDA (INR Mn)	EBITDA Margin	PAT (INR Mn) FY23	ROE %	ROCE%	Basic EPS	EV/EBITDA	P/E (x)
SSWL	279	45,029	40,405	4,428	10.96%	1,938	17.08%	18.60%	12.39	10.18	22.52
Wheels India Ltd	664	18,640	46,510	2,180	4.69%	540	7.22%	11.00%	24.01	10.18	27.66
Uno Minda	673	365,747	112,360	12,420	11.05%	7,000	17.10%	19.00%	12.00	25.86	26.02

Exhibit 35: Peer Comparison Product & Services

	SSWL	Wheels India Ltd	Uno Minda
Products & Services	Steel wheel rims for PV, utility vehicles, 2/3 wheelers, tractors, light/ heavy CV/OTRs, and Alloy Wheel Rims for PV. Tubeless, Multi-piece, High Vent, and Weight optimized wheels. Heavy commercial vehicle wheels.	Steel wheel rims (except 2W), tractor, and earth mover segments. Further, also manufactures air suspension systems for luxury buses in India, supplies fabricated and machined parts for windmills, and produces bogie frames and bogie bolsters for Indian Railways	The Company manufactures 20+ Product categories for OEM's which includes Alternate Fuel Systems; Air Filtration Systems; Canisters; Brake Hoses & Fuel Hoses; Combined Braking System (CBS); Noise Suppressor Cap etc. [6] It has filed for 260+ Patents and 250+ Designs
Market leader	It is a leader in Designing, Manufacturing & Supplying automotive wheel rims – both under the steel & alloy category	leader in automotive wheels business , operates in two business segments , namely automotive products and industrial products	Market leader in Switching systems and Lighting
Clientele	Passenger Vehicles : Tata Motors, BMW, Honda, MarutiSuzuki,MG,Nissan,Kia,Hyundai,Jaguar, Skoda,Land Rover,Peugeot,Ford, Renault etc. Tractor- Mahindra, Eicher, Sonalika, Escorts, Swaraj, John Deere, Gromax, Preet, Yanmar, Kubota, Captain etc Commercial Vehicle/OTR -Tata, Volvo, Escorts, Daimler, JCB, Swaraj Mazda, L&T, Mahindra Earthmaster etc 2/3 Wheeler- Honda, Suzuki, Atul, Piaggio, Mahindra, JSA, Ampere etc	The co. has a client base of ~30 OEMs globally. Its top clients include Mahindra, Tata Motors, and Maruti Suzuki India which contribute 12%, 8%, and 8% of domestic wheel revenues respectively.	Key domestic clients include Bajaj, Honda Motorcycles, Hero Motocorp, Royal Enfield, Yamaha Motors, and Piaggio
Revenue by segments	Alloy wheel 28% & Steel wheel 72%	Wiring harness 29%, Emerging businesses 7%, Modules and Polymer products 46%, Vision systems 18%	Seatings 9%, Castings 19%, Lighting 23%, Acoustics 7%, Switches 29%, Others 13%
Revenue by Geography	Domestic 86%, Global 14%	Manufacture of Road Wheels 83.5%Manufacture of Parts & Accessories for Machinery /Equipment's used by construction and mining industries16.5%	Lighting: 24%, Switches: 35% Acoustics: 10%, LMT: 15% Others: 16% of Revenue OEM-86%; Replacement-14% 2 Wheeler-48% ; 4 Wheeler-52% India: 83% ; International: 17%
Domestic MS	PV-45%, MHCV-53%, Tractor-44%/70%-OTR and 30-2w&3w	The company has a dominant 42% market share in the domestic steel rims market	
Capex	The company did a INR 900 Mn capex in FY23. This is a expansion of existing for the alloy wheel facility to take it from 3 mn to 4.8 mn wheels. Plus on the castings business, there is going to be some capex.	Capex will be primarily funded by internal accruals	INR 6000 Mn-INR 7000 Mn

Source: Arihant Research

Peer Comparison

Exhibit 36: Sswl revenue growth is better than competitors over the period of FY21-23.

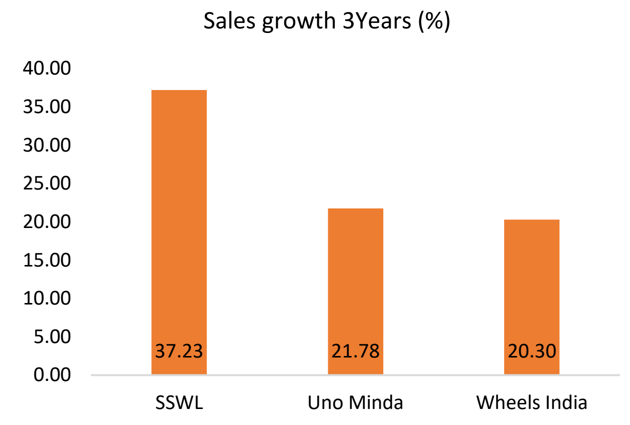


Exhibit 37: Sswl PAT growth is better than competitors over the period of FY21-23.

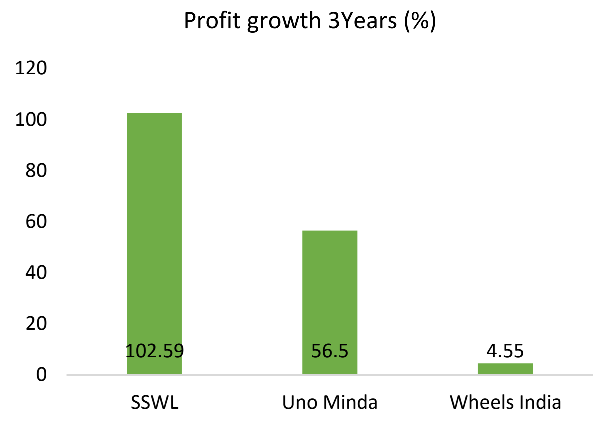


Exhibit 38: Sswl lowest debt to equity in compare to competitors.

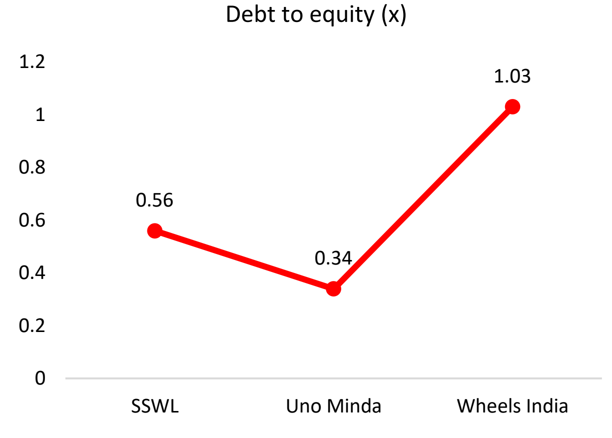


Exhibit 39: Sswl ROA better in the industry

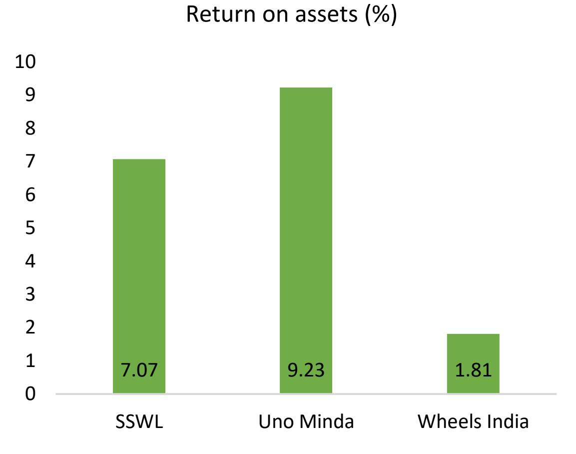


Exhibit 40: Sswl has lowest EV/EBITDA in the industry

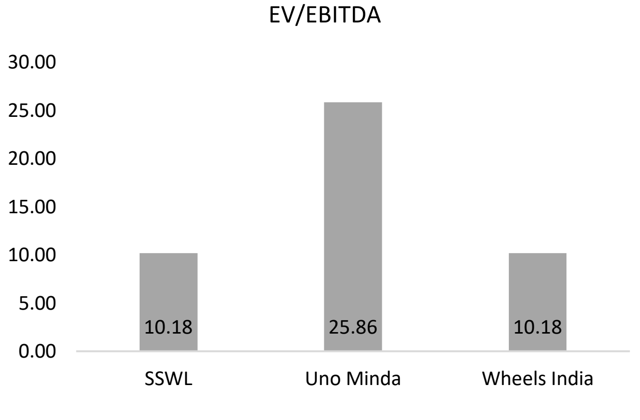
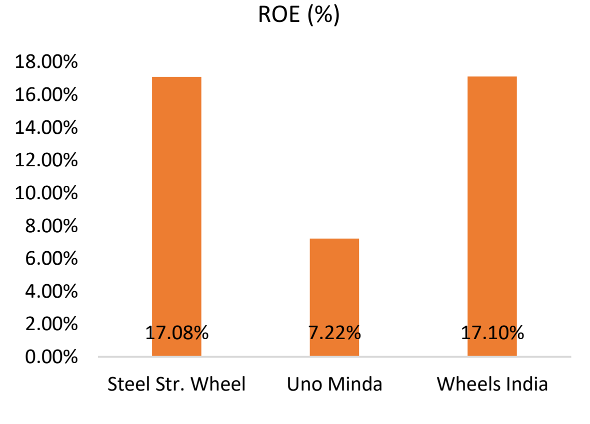


Exhibit 41: Sswl has better ROE as compare to competitors



Source: Arihant Research

Income Statement (INR Mn) (Consolidated)

Year End-March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	**15,633**	**17,494**	**35,600**	**40,405**	**43,712**	**48,655**	**54,741**
Change (%)	-23.4%	11.9%	103.5%	13.5%	8.2%	11.3%	12.5%
Employee costs	1,561	1,529	2,187	2,837	3,672	4,476	4,981
Operation and other expenses	**2,697**	**2,936**	**7,014**	**6,504**	**7,212**	**7,970**	**9,169**
Total Operating Expenses	4,259	4,466	9,200	9,341	10,884	12,446	14,151
Depreciation	719	723	769	804	929	1,005	1,082
EBITDA	1712	2038	4528	4428	4852	5459	6158
EBITDA Margin (%)	**11.0%**	**11.6%**	**12.7%**	**10.96%**	**11.10%**	**11.2%**	**11.3%**
EBIT	**993**	**1314**	**3759**	**3624**	**3923**	**4454**	**5076**
EBIT Margin (%)	**6.3%**	**7.5%**	**10.6%**	**9.0%**	**9.0%**	**9.2%**	**9.3%**
Interest	887	839	854	835	867	777	777
Other Income	221	163	130	124	153	170	192
PBT	**327**	**638**	**3,035**	**2,912**	**3,208**	**3,847**	**4,490**
Exceptional Items	0.00	0.01	-	-	-	-	-
PBT after exceptional Items	**327**	**638**	**3,035**	**2,912**	**3,208**	**3,847**	**4,490**
Tax	93	146	981	974	1,075	1,154	1,504
Rate (%)	*28.3%*	*22.8%*	*32.3%*	*33.5%*	*33.5%*	*30.0%*	*33.5%*
PAT	**234**	**493**	**2,055**	**1,938**	**2,133**	**2,693**	**2,986**
Non-controlling interest	-	-	-	-	-	-	-
Consolidated PAT	**234**	**493**	**2,055**	**1,938**	**2,133**	**2,693**	**2,986**
PAT Margin (%)	*1.5%*	*2.8%*	*5.8%*	*4.8%*	*4.9%*	*5.5%*	*5.5%*

Balance Sheet (INR Mn) (Consolidated)

Year End-March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds							
Share Capital	156	156	156	157	157	157	157
Reserves & Surplus	6,824	7,337	9,362	11,191	13,168	15,704	18,533
Total Equity	6,979	7,493	9,518	11,347	13,324	15,860	18,690
Toal assets	**21,791**	**23,767**	**27,016**	**27,814**	**30,172**	**32,649**	**36,736**
Application of Funds							
Gross Block	18,991	19,169	20,931	21,625	24,825	26,825	28,825
Less: Depreciation	719	723	769	804	929	1,005	1,082
Net Block	13,047	12,574	13,583	13,472	15,749	16,751	17,679
CWIP	855	1,093	969	1,634	1,634	1,634	1,634
Financial Assets	90	91	79	105	105	105	105
Investments	2	2	2	41	41	41	41
Inventories	**3,293**	**4,965**	**6,470**	**7,339**	**7,252**	**7,971**	**8,926**
Sundry debtors	**2,098**	**2,571**	**3,923**	**3,487**	**3,643**	**4,257**	**6,234**
Cash and bank	917	532	579	440	383	459	588
Other Current Assets	1,284	1,384	1,032	429	481	535	602
Total Current assets	7,663	9,508	12,046	11,783	11,846	13,309	16,437
Total Current liabilities	4,418	3,798	2,793	1,610	1,010	410	410
Net Current assets	**14,128**	**14,259**	**14,970**	**16,031**	**18,327**	**19,340**	**20,299**
Capital Employed	**21,791**	**23,767**	**27,016**	**27,814**	**30,172**	**32,649**	**36,736**

Source: Arihant Research

Cash Flow Statement (INR Mn) (Consolidated)							
Year End-March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Add:- Depreciation	323	639	3,009	2,886	3,208	3,847	4,490
Depreciation	719	723	769	804	929	1,005	1,082
Finance Costs	887	839	854	835	867	777	777
Operating Profit before WC Changes	**1,929**	**2,202**	**4,632**	**4,526**	**5,005**	**5,629**	**6,350**
Operating Profit after WC Changes	**(715)**	**(247)**	**(23)**	**(476)**	**867**	**(848)**	**(1,741)**
Direct Taxes Paid & Exceptional Items	93	146	462	476	1,075	1,154	1,504
Cash Flow from Operating Activities	**1,307**	**2,101**	**5,071**	**4,525**	**6,947**	**5,936**	**6,113**
Cash Flow from Investing Activities	**(693)**	**(371)**	**(1,535)**	**(1,279)**	**(3,225)**	**(2,018)**	**(2,042)**
Cash Flow from Financing Activities	**(639)**	**(1,706)**	**(2,479)**	**(2,341)**	**(1,629)**	**(1,534)**	**(934)**
Net Change in Cash & Cash Equivalents	(293)	(385)	47	(139)	(57)	76	129
Opening Cash & Cash Equivalents	1,210	917	532	579	440	383	459
Closing Cash & Cash Equivalents	917	532	579	440	383	459	588

Key Ratios							
Year End-March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Per share (INR)							
EPS	14.6	15.7	13.2	12.4	13.6	17.2	19.1
BVPS	45	48	61	72	85	101	119
Valuation (x)							
P/E	19.1	17.7	21.2	22.5	20.5	16.2	14.6
P/BV	6.2	5.8	4.6	3.8	3.3	2.8	2.3
EV/EBITDA	27.5	23.0	10.2	10.2	9.2	8.0	7.1
Return ratio (%)							
EBITDA Margin	11.0%	11.6%	12.7%	11.0%	11.1%	11.2%	11.3%
EBIT Margin	6.3%	7.5%	10.6%	9.0%	9.0%	9.2%	9.3%
PAT Margin	1.5%	2.8%	5.8%	4.8%	4.9%	5.5%	5.5%
ROE	3.4%	6.6%	21.6%	17.1%	16.0%	17.0%	16.0%
ROCE	5.8%	7.7%	20.3%	18.6%	27.4%	27.4%	26.6%
Depriciation/Gross Block	3.8%	3.8%	3.7%	3.7%	3.7%	3.7%	3.8%
Net sales / Gr block (x)	0.82	0.91	1.70	1.87	1.76	1.81	1.90
Leverage Ratio (%)							
Total D/E	0.65	0.52	0.32	0.16	0.09	0.04	0.03
Turnover Ratios							
Asset Turnover (x)	2.7	1.6	1.5	3.0	3.4	3.3	3.0
Inventory Days	126.1	137.1	95.4	94.6	94.6	94.6	94.6
Receivable Days	55.0	65.3	54.9	61.2	66.0	63.0	64.0

Source: Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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