

CMP: INR 272

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)	43,320
52w H/L (INR)	299/126
Avg Yearly Vol (in 000')	423

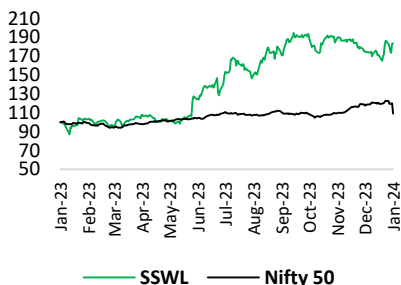
Shareholding Pattern %

(As an Dec, 2023)

Promoters	61.91
Public & Others	38.09

Stock Performance (%)	1m	3m	12m
SSWL	3.92	-3.8	81.4
Nifty	2.3	10.8	20.1

SSWL Vs Nifty



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Steel Strips Wheels Ltd, reported revenue and EBITDA above expectation, margin in line with estimates. PAT estimate beat due to lower than expected effective tax rate on account of change in tax rate norm. Revenues came in at INR 11,103 Mn (-2.1% QoQ) (+18.3% YoY) (above our estimates of INR 10,417 Mn). EBITDA came in at INR 1167 Mn (+6.2% QoQ) (+8.2% YoY) (above our estimates of INR 1,148 Mn). EBITDA Margins came in at 10.51% (contraction of 47bps QoQ) (Vs - 99 bps YoY) (in-line with our estimates). PAT came in at INR 594 Mn (+9.4% QoQ) (down -4.2 Mn YoY) (above estimates of INR 507 Mn). SSWL's total Capex spend for 9MFY24 stands at INR 2550 Mn. The company successfully implemented the CRP plan, making a payment of INR 138 crores through a mix of equity and debt. AMW Auto components Ltd is now a wholly-owned subsidiary of Steel Strips Vehicles Ltd.- The alloy wheel brownfield capacity expansion project involves total CapEx of about INR 1900 Mn of which INR 1650 Mn is already spent on this project. By the end of FY24, the estimated operational capacity stands at 3.6 Mn wheel rims. Alloy Wheel rims sale volume de-growth by 1% YoY to 7.4 Lakhs wheels.

Investment Rationale

Strong orderbook and sales projection: In the upcoming fiscal year, the company anticipates the order book for wheels to reach an estimated range of 3.5 to 3.6 mn. With a projected growth rate of 3-5% in steel wheels, the strategic emphasis will be on the expansion of large wheels to drive overall revenue growth. Notably, the company has received a RFQ from Maruti, and the commercial bids for this opportunity are pending disclosure.

Strong traction in Export: In Q3 FY24, SSWL achieved an outstanding 179% YoY growth in export revenue, signaling a positive trajectory driven by increasing demand. The company foresees a substantial boost in revenue from alloy exports, projecting a remarkable 70-80% increase in the upcoming financial year. Anticipating a robust performance, export figures are estimated to fall within the range of INR 5500-6000 Mn in FY24 and are expected to increase further to INR 7500-8000 Mn in FY25.

CAPEX and Debt Repayment: The projected capex for the full FY24 is ~INR 4700 Mn. Looking ahead to FY25, the estimated CAPEX is INR 1800 Mn, with cash approvals in the range of INR 2200 to 2300 Mn, indicating expected coverage by cash accruals. Scheduled debt repayment over the next three to four years stands at ~INR 900Mn annually. In the recent quarter, a cost increase of INR 200 Mn was partially mitigated by increased revenue.

Outlook and valuation

The company aims to reach a capacity of 4.8 mn wheels by Q2FY25. Out of total exports, Alloy wheel exports are estimated to be between INR 1600 to 1700 Mn. EV market growth is anticipated at 25-30%, with a focus on two-wheelers. On the tractor side, the company expects a growth of 4% to 5% and on CV side, they plan to use the AMW asset to produce more wheels starting around June or July 2024. 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 272, SSWL is trading at a EV/EBITDA of ~6.9x to its FY26 EBITDA of INR 6,164 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 with the Target Price of INR 410 per share based on DCF and continue maintaining our Buy rating on the stock.**

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	5,400	6,164
EBITDA Margin (%)	10.95%	11.65%	12.72%	10.96%	11.10%	11.10%	11.26%
PAT	234	493	2,055	1,938	2,470	2,783	3,268
ROE	3.36%	6.57%	21.59%	17.08%	18.08%	17.09%	16.85%
ROCE	6.10%	8.15%	21.37%	19.58%	27.31%	25.93%	25.53%
EPS	14.6	15.7	13.2	12.4	15.8	17.8	20.9
P/E	18.7	17.3	20.7	22.0	17.3	15.3	13.0

Source: Company, Arihant Research

Exhibit 2: Quarterly Performance

Consolidated (INR Mn)	Q3FY24	Q2FY24	Q3FY24	QoQ
Revenue from operations	11103	11337	9384	-2.1%
Cost of materials consumed	7415	7482	6584	-0.9%
Change in inventory	-255	-9	-683	2675.4%
Cost of Goods Sold (COGS)	7160	7472	5901	-4.2%
Gross Profit	3943	3865	3484	2.0%
Employee benefits expense	899	896	739	0.4%
Other expenses	1877	1725	1666	8.8%
Total operating Expenses	9936	10093	8306	-1.6%
EBITDA	1167	1244	1079	-6.2%
EBITDA Margin (%)	10.51%	10.98%	11.50%	-47bps
Depreciation and amortisation expenses	225	225	202	0.1%
EBIT	942	1019	876.72	-7.6%
EBIT Margin (%)	8.48%	8.99%	9.34%	-5.7%
Finance costs	251	260	220	-3.6%
Other income	17	30	20	-43.1%
PBT	708	789	677	-10.3%
Share of profit/loss from associates	(1.22)	(1.15)	-	5.8%
PBT	707	788	677	-10.3%
Tax Expense	113	265	239	-57.5%
Tax Rate	15.9%	33.6%	35.3%	-1768bps
PAT	594	523	438	9.4%
EPS	3.79	3.34	2.80	13.5%

Source: Company, Arihant Research

Q3FY24 Concall Takeaways

Order Book and Sales Projections: The order book for wheels is expected to reach 3.5 to 3.6 million in FY25. Steel wheel growth is estimated at 3-5%, with a focus on large wheels contributing to revenue growth. The company has received the RFQ from Maruti, with the commercial bids yet to be opened.

Exports: Alloy exports are anticipated to contribute significantly to revenue growth, with a 70-80% increase expected in the next financial year. The exports are expected to be in a range of INR 550-600 crores in FY24 and INR 750-800 crores in FY25.

EBITDA Margins: In Q3 FY24, due to changes in export pricing and increased raw material costs there was a decline in EBITDA Margin. The company expects EBITDA margin improvement in the next two to three years, driven by a shift in favourable mix. The company considers EBITDA per wheel as a better indicator than percentage, as it is less affected by raw material price fluctuations which is almost at INR 252 to INR 254 per wheel.

Freight and Export Challenges: Challenges in the export market include uncertainties related to the Red Sea issue, leading to increased freight costs and supply chain because the transit time has increased by 35 to 50 days. Despite challenges, the company is anticipating a fragmented growth of GDP times 0.85 as a multiplier effect.

CAPEX and Debt Repayment: For the full FY24 the capex is estimated to be around INR 4700 Mn. In FY25 the CAPEX is estimated to be around INR 1800Mn and cash accrual of around INR 2200 to 2300 Mn, so cash accruals are expected to cover CAPEX. Scheduled debt repayment for the next three or four years is around INR 900 Mn annually. A cost increase of INR 200 Mn Q3FY24, is partially offset by increased revenue.

Aluminium Knuckles: Initial revenue from Knuckles capacity addition is estimated at INR 500 Mn. In the second phase, with additional CAPEX, revenue is projected to exceed INR 2700 to 3000 Mn. Asset turnover is expected to be in the range of 1.5 to 1.8x, with margins in double digits.

Working Capital: The net cash conversion cycle stood at 55 days as on September 2023. An accrual of INR 1500 Mn was made to meet working capital requirements during this period. The increase in the cash conversion cycle is due to substantial growth in exports, from INR 2900 Mn to INR 5000 Mn in 9MFY24.

AMW Side: The AMW plant's peak revenue potential is estimated at INR 7000-8000 Mn with a 6 – 7 Mn blended capacity. Initial revenue expectations for FY25 is between INR 600 – 800 Mn coming in as the truck line will start producing the demand shortage, with further growth anticipated over the next five to six years. Margin buildup is expected by FY25 and a target of INR 1500 – 2000 Mn of revenue from AMW by FY26 by balancing the plants.

Story in charts (INR in Mn)

Exhibit 3: Revenue growth led by healthy growth in domestic and international business

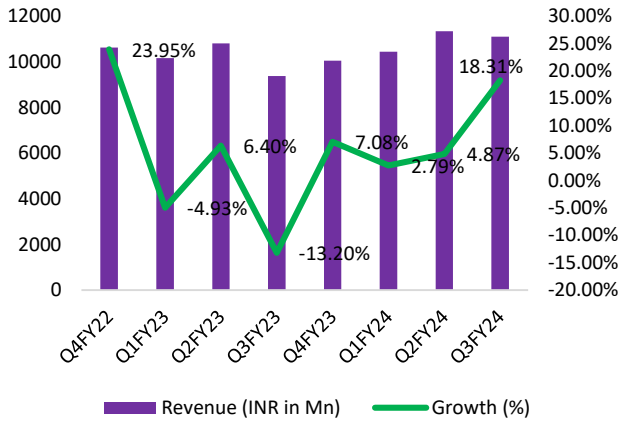


Exhibit 5: Margins to improve in coming years led by new segments.

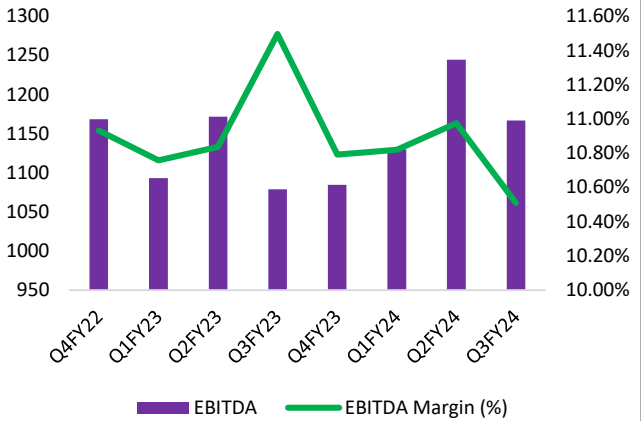


Exhibit 4: Strong profit growth to be seen on back of strong order book

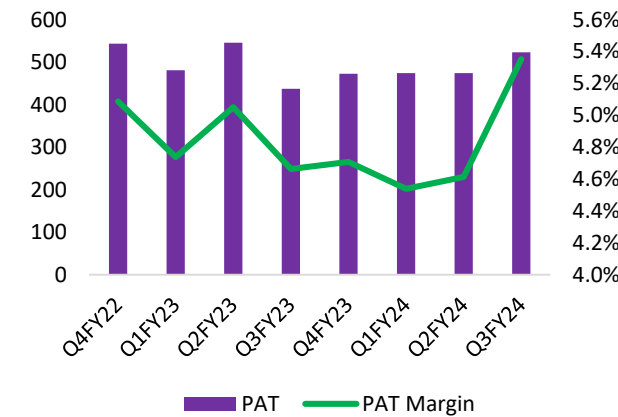


Exhibit 6: Increased Revenues from Exports (INR. Mn)

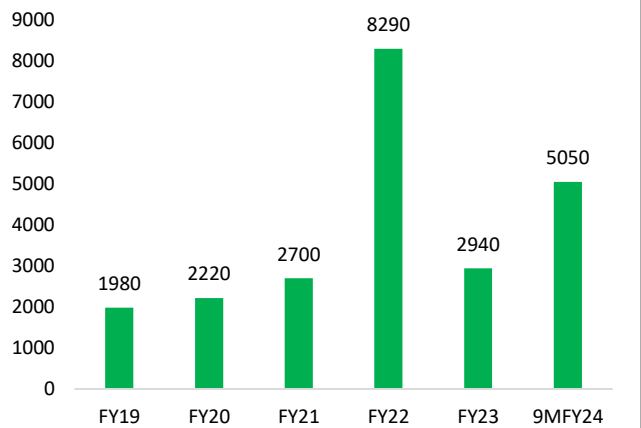
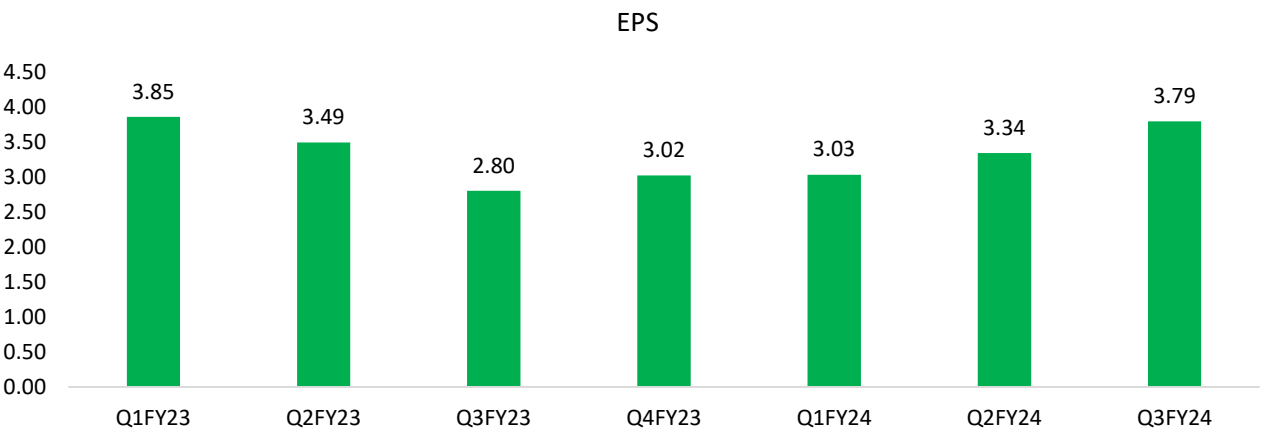


Exhibit 7: Improving earning trends



Source: Company, Arianth 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
<i>Change (%)</i>	-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	927	992	1,030
EBITDA	1712	2038	4528	4428	4852	5400	6164
EBITDA Margin (%)	11.0%	11.6%	12.7%	10.96%	11.10%	11.1%	11.3%
EBIT	993	1314	3759	3624	3924	4408	5134
EBIT Margin (%)	6.3%	7.5%	10.6%	9.0%	9.0%	9.1%	9.4%
Interest	887	839	854	835	548	603	658
Other Income	221	163	130	124	153	170	192
PBT	327	638	3,035	2,912	3,529	3,975	4,668
Exceptional Items	0.00	0.01	-	-	-	-	-
PBT after exceptional Items	327	638	3,035	2,912	3,529	3,975	4,668
Tax	93	146	981	974	1,059	1,193	1,400
<i>Rate (%)</i>	28.3%	22.8%	32.3%	33.5%	30.0%	30.0%	30.0%
PAT	234	493	2,055	1,938	2,470	2,783	3,268
Non-controlling interest	-	-	-	-	-	-	-
Consolidated PAT	234	493	2,055	1,938	2,470	2,783	3,268
<i>PAT Margin (%)</i>	1.5%	2.8%	5.8%	4.8%	5.7%	5.7%	6.0%

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	13,504	16,131	19,242
Total Equity	6,979	7,493	9,518	11,347	13,661	16,287	19,398
Total assets	21,791	23,767	27,016	27,814	30,688	33,376	37,745
Application of Funds							
Gross Block	18,991	19,169	20,931	21,625	26,325	28,125	29,125
Less: Depreciation	719	723	769	804	927	992	1,030
Net Block	13,047	12,574	13,583	13,472	17,251	18,067	18,047
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	6,515	7,161	8,926
Sundry debtors	2,098	2,571	3,923	3,487	3,036	4,257	6,234
Cash and bank	917	532	579	440	742	681	1,228
Other Current Assets	1,284	1,384	1,032	429	481	535	602
Total Current assets	7,663	9,508	12,046	11,783	10,860	12,721	17,077
Total Current liabilities	4,418	3,798	2,793	1,610	710	710	710
Net Current assets	14,128	14,259	14,970	16,031	19,829	20,655	20,667
Capital Employed	21,791	23,767	27,016	27,814	30,688	33,376	37,745

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	3,529	3,975	4,668
Depreciation	719	723	769	804	927	992	1,030
Finance Costs	887	839	854	835	548	603	658
Operating Profit before WC Changes	1,929	2,202	4,632	4,526	5,005	5,570	6,356
Operating Profit after WC Changes	(715)	(247)	(23)	(476)	2,691	(1,861)	(2,551)
Direct Taxes Paid & Exceptional Items	93	146	462	476	1,059	1,193	1,400
Cash Flow from Operating Activities	1,307	2,101	5,071	4,525	8,754	4,902	5,205
Cash Flow from Investing Activities	(693)	(371)	(1,535)	(1,279)	(4,725)	(1,818)	(1,042)
Cash Flow from Financing Activities	(639)	(1,706)	(2,479)	(2,341)	(1,610)	(760)	(814)
Net Change in Cash & Cash Equivalents	(293)	(385)	47	(139)	302	(61)	548
Opening Cash & Cash Equivalents	1,210	917	532	579	440	742	681
Closing Cash & Cash Equivalents	917	532	579	440	742	681	1228

Key Ratios

Year End-March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Per share (INR)							
EPS	14.6	15.7	13.2	12.4	15.8	17.8	20.9
BVPS	45	48	61	72	87	104	124
Valuation (x)							
P/E	18.7	17.3	20.7	22.0	17.3	15.3	13.0
P/BV	6.1	5.7	4.5	3.8	3.1	2.6	2.2
EV/EBITDA	26.9	22.5	9.9	9.9	8.8	7.9	6.9
Return ratio (%)							
EBITDA Margin	11.0%	11.6%	12.7%	11.0%	11.1%	11.1%	11.3%
EBIT Margin	6.3%	7.5%	10.6%	9.0%	9.0%	9.1%	9.4%
PAT Margin	1.5%	2.8%	5.8%	4.8%	5.7%	5.7%	6.0%
ROE	3.4%	6.6%	21.6%	17.1%	18.1%	17.1%	16.8%
ROCE	6.1%	8.1%	21.4%	19.6%	27.3%	25.9%	25.5%
Depreciation/Gross Block	3.8%	3.8%	3.7%	3.7%	3.5%	3.5%	3.5%
Net sales / Gr block (x)	0.82	0.91	1.70	1.87	1.66	1.73	1.88
Leverage Ratio (%)							
Total D/E	0.65	0.52	0.32	0.16	0.07	0.06	0.05
Turnover Ratios							
Asset Turnover (x)	2.7	1.6	1.5	3.0	3.7	3.4	2.8
Inventory Days	126.1	137.1	95.4	94.6	85.0	85.0	94.6
Receivable Days	55.0	65.3	54.9	61.2	70.0	63.0	64.0

Source: Arihant Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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