

Steel Strips Wheel (STESW)

CMP: ₹ 235

Target: ₹ 330 (40%)

Target Period: 12 months

BUY

July 26, 2024

On steady growth trajectory, re-rating imminent...

About the stock: Steel Strips Wheels Ltd. (SSWL), is a Chandigarh based company involved in designing and manufacturing of automotive wheels - both steel and alloy wheels. It currently has five plants in India with total production capacity of ~2.4 crore wheels per annum (including ~0.36 crore of alloy wheels)

- FY24 revenue mix: Alloy wheels: 28%; Steel wheels: 72%
- FY24 market share in steel wheels: PV: 37%; M&CV: 61%; Tractor: 42%
- SSWL counts all major domestic OEMs as its clients across categories

Investment Rationale:

- **Capacity led expansion to propel topline growth:** SSWL is a leading wheel manufacturer domestically and is a prominent player in domestic oligopolistic wheels industry. It is presently executing a brownfield expansion in the alloy wheel space which will augment its capacity from 36 lakh units per annum to 48 lakh units per annum with full ramp up of the same expected in 2-3 years' timeframe. SSWL in the recent past has also acquired AACL from NCLT at an acquisition cost of ~₹ 138 crore, having steel wheel capacity of ~70 lakh units. Thus, total installed capacity at SSWL is expected to increase from ~2.4 crore units to ~3.2 crore units by FY25E. Going forward sensing steady demand prospects in the steel wheel segment, greater exports thrust and premiumisation play in alloy wheel space we have built in wheel sales volume CAGR of 7% over FY24-26E. We have modelled in total wheel sales of 2.0 crore wheels in FY25E and 2.2 crore in FY26E. Also supporting topline growth at the company is venturing into new segments such as Aluminium knuckles. Management in the recent Concall also shared its vision for US\$ 1 billion sales by FY30E.
- **Capital efficient business model, declining debt to drive re-rating:** SSWL is a capital efficient company realising ~11% EBITDA margins and ~14-17% return ratios profile. On the debt side amidst brownfield expansion in alloy wheels, knuckles and AACL acquisition its current gross debt has increased to ~₹1,050 crore as of FY24 end. With peak capex behind us, debt is expected to retire at SSWL with gross debt expected at ~₹ 780 crore by FY26E. It presently trades inexpensive at <15x PE and <8x EV/EBITDA which makes re-rating imminent for the stock in our view.

Rating and Target Price

- We continue to retain our positive stance on **SSWL** and assign **BUY** rating on the stock amid organic growth on the anvil, levers for margin expansion and inexpensive valuations. Powertrain agnostic product profile is added positive. We built in sales/PAT growth of 8%/14% CAGR over FY24-26E.
- We value SSWL at **₹ 330** i.e. **18x P/E** on **FY26E EPS of ₹ 18.3**

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,563.3	1,749.4	3,560.0	4,040.5	4,357.1	16.4%	4,677.6	5,072.6	7.9%
EBITDA	171.2	203.8	452.8	442.8	464.0	13.5%	514.5	568.1	10.7%
EBITDA Margins (%)	11.0	11.6	12.7	11.0	10.6		11.0	11.2	
Net Profit	23.4	49.3	205.5	193.8	674.7	52.3%	233.1	287.7	-34.7%
Normalised Profit	23.4	49.3	205.5	193.8	219.9	21.7%	233.1	287.7	14.4%
EPS (₹)	1.5	3.2	13.2	12.4	43.0		14.9	18.3	
P/E	156.2	74.5	17.9	19.0	5.5		15.8	12.8	
RoNW (%)	3.4	6.6	21.6	17.1	17.0		14.1	15.1	
RoCE (%)	5.1	6.8	19.0	18.0	13.8		14.8	16.1	

Source: Company, ICICI Direct Research



Steel Strips Wheels Limited

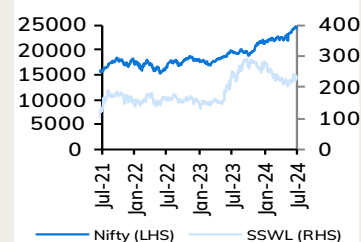
Particulars

Particulars	₹ crore
Market capitalisation	3,664
Total Debt (FY24P)	1,048
Cash & Invt. (FY24P)	43
EV (₹ crore)	4,669
52 week H/L (₹)	299 / 190
Equity capital (₹ crore)	15.7
Face value (₹)	1.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	62.3	61.9	61.0	61.0
FII	6.1	6.1	5.9	6.4
DII	2.1	2.7	4.1	4.0
Other	29.6	29.3	29.0	28.6

Price Chart



Recent event & key risks

- Posted steady Q1FY25. Guides for high single digit growth in FY25E. EBITDA/unit at ₹ 250+
- Key Risk: (i) Slower than anticipated ramp up of new capacities, (ii) pressure on exports amidst logistical issues

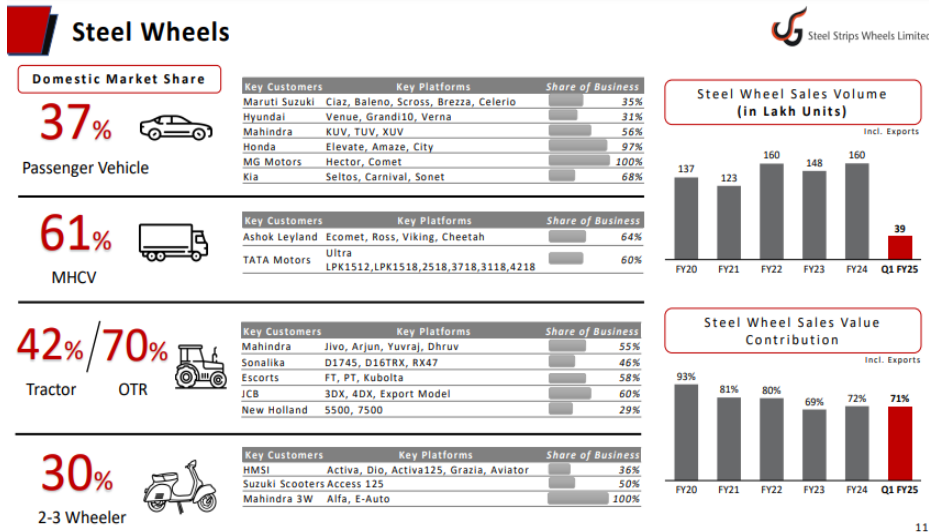
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Key Tables and Charts

Exhibit 1: Steel Wheel Business Snapshot



Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Net Sales	4,040.5	4,357.1	4,677.6	5,072.6	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	4,040.5	4,357.1	4,677.6	5,072.6	
Growth (%)	13.5	7.8	7.4	8.4	
Raw Material Expenses	2,663.6	2,836.1	3,040.5	3,297.2	
Employee Expenses	283.7	358.0	374.2	405.8	
Other Operating Expense	650.4	699.0	748.4	801.5	
Total Operating Expenditure	3,597.7	3,893.1	4,163.1	4,504.5	
EBITDA	442.8	464.0	514.5	568.1	
Growth (%)	-2.2	4.8	10.9	10.4	
Depreciation	80.4	104.2	106.8	115.7	
Interest	83.5	102.7	108.7	81.7	
Other Income	12.4	13.7	13.9	15.4	
PBT	291.2	270.8	312.9	386.1	
Exceptional Item	0.0	-472.6	0.0	0.0	
Total Tax	97.4	68.7	79.8	98.5	
PAT	193.8	674.7	233.1	287.7	
Growth (%)	-5.7	248.2	-65.4	23.4	
EPS (₹)	12.4	43.1	14.9	18.3	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	193.8	201.7	233.1	287.7	
Add: Depreciation	80.4	104.2	106.8	115.7	
(Inc)/dec in Current Assets	12.5	-25.3	-84.1	-106.9	
Inc/(dec) in CL and Provisions	42.4	-75.4	47.4	62.5	
Others	83.5	102.7	108.7	81.7	
CF from operating activities	412.6	307.9	412.0	440.7	
(Inc)/dec in Investments	-3.9	-0.2	0.5	-1.0	
(Inc)/dec in Fixed Assets	-135.8	-582.1	-220.0	-100.0	
Others	-52.7	-139.6	0.0	0.0	
CF from investing activities	-192.4	-721.8	-219.5	-101.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-139.6	409.7	-60.0	-210.0	
Dividend & interest outgo	-99.2	-118.4	-132.2	-113.1	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	4.7	121.4	0.0	0.0	
CF from financing activities	-234.1	412.8	-192.2	-323.1	
Net Cash flow	-13.9	-1.2	0.3	16.7	
Opening Cash	57.9	44.0	42.8	43.1	
Closing Cash	44.0	42.8	43.1	59.8	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	15.7	15.7	15.7	15.7	
Reserve and Surplus	1,119.1	1,426.5	1,636.1	1,892.4	
Total Shareholders funds	1,134.7	1,442.2	1,651.8	1,908.1	
Total Debt	638.3	1,047.9	987.9	777.9	
Deferred Tax Liability	171.6	100.8	100.8	100.8	
Minority Interest / Others	68.3	19.5	19.5	19.5	
Total Liabilities	2,012.9	2,610.5	2,760.1	2,806.4	
Assets					
Gross Block	2,162.5	2,545.4	3,078.0	3,178.0	
Less: Acc Depreciation	815.3	919.5	1,026.3	1,142.1	
Net Block	1,347.2	1,625.9	2,051.6	2,035.9	
Capital WIP	163.4	362.6	50.0	50.0	
Total Fixed Assets	1,510.6	1,988.5	2,101.6	2,085.9	
Investments	5.5	5.6	5.1	6.1	
Inventory	733.9	697.0	768.9	833.9	
Debtors	348.7	439.7	448.5	486.4	
Loans and Advances	26.9	27.0	29.0	31.4	
Other Current Assets	46.8	18.0	19.4	21.0	
Cash	44.0	42.8	43.1	59.8	
Total Current Assets	1,200.4	1,224.5	1,308.9	1,432.5	
Current Liabilities	694.8	600.0	640.8	694.9	
Provisions	35.6	40.5	43.2	46.8	
Current Liabilities & Prov	768.5	693.1	740.5	803.0	
Net Current Assets	431.9	531.4	568.4	629.4	
Others Assets	64.9	85.0	85.0	85.0	
Application of Funds	2,012.9	2,610.5	2,760.1	2,806.4	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Per share data (₹)					
EPS	12.4	43.1	14.9	18.3	
Cash EPS	17.5	49.6	21.7	25.7	
BV	72.5	91.9	105.3	121.6	
DPS	1.0	1.0	1.5	2.0	
Cash Per Share	2.8	2.7	2.7	3.8	
Operating Ratios (%)					
EBITDA Margin	11.0	10.6	11.0	11.2	
PAT Margin	4.8	15.5	5.0	5.7	
Inventory days	66.3	58.4	60.0	60.0	
Debtor days	31.5	36.8	35.0	35.0	
Creditor days	62.8	50.3	50.0	50.0	
Return Ratios (%)					
RoE	17.1	17.0	14.1	15.1	
RoCE	18.0	13.8	14.8	16.1	
RoC	20.1	16.3	15.3	16.8	
Valuation Ratios (x)					
P/E	19.0	5.5	15.8	12.8	
EV / EBITDA	9.6	10.1	9.0	7.7	
EV / Net Sales	1.1	1.1	1.0	0.9	
Market Cap / Sales	0.9	0.8	0.8	0.7	
Price to Book Value	3.2	2.6	2.2	1.9	
Solvency Ratios					
Debt/EBITDA	1.4	2.3	1.9	1.4	
Debt / Equity	0.6	0.7	0.6	0.4	
Current Ratio	1.6	1.8	1.9	1.9	
Quick Ratio	0.6	0.8	0.7	0.7	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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