



Steel Strips Wheels Ltd

Exports bottomed out, Better product mix led by increasing share of premium products!

Q3FY25 PAT is nearly in line with our estimates. The company's revenue decline of ~3% YoY was majorly led by decline in realization per wheel, although volumes remained flattish. EBITDA per wheel improved by ~1% YoY led by lower other expense. We anticipate ~4% CAGR growth in EBITDA per wheel for the next 2 years led by better product mix & higher exports. Management has cut its export revenue guidance to Rs5.5-6bn (vs earlier Rs6-6.5bn) led by continued weakness in US & EU markets, although, the worst is now behind & US markets will outperform other export markets on the back of favourable new government policies, higher tariffs on China products, no election uncertainty & improved demand conditions. On Aluminium Knuckles business, management guided for revenue of Rs1.05-1.15bn by FY27E with double-digit margin. Overall, we expect total volume CAGR of ~6% from FY25E-27E led by significant growth in alloy wheels exports, long-term agreements signed with several tractor OEMs, identification of new growth markets for OTR, the initiation of a high-margin knuckle casting project for a few OEMs, and consistent growth in export steel wheels. Overall, debt will reduced by Rs1-1.2bn per annum & further debt reduction if cash flows are better. Led by improved product mix on the back of rising alloys wheel contribution, we anticipate the EBITDA margin to increase from ~11.0% in 9MFY25 to 11.3% by FY27E. Additionally, prepayment of debt is anticipated starting H1FY26E due to lower capex requirements and high FCfs. We recommend a strong BUY, with a revised target price of Rs 280 per share.

Rating: **BUY** Return: **42.0%**
Current Price: **197** Target Price: **280**

| Earlier recommendation

Previous Rating: Buy
Previous Target Price: 305

| Market data

Bloomberg:	SSW: IN
52-week H/L (Rs):	289/189
Mcap (Rs bn/USD mn):	31.0/0.4
Shares outstanding (mn):	156.9
Free float:	25.0%
Avg. daily vol. 3mth:	0.2mn
Face Value (Rs):	1.0

Source: Bloomberg, SMIFS research

| Shareholding pattern (%)

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	61.0	61.0	61.0	61.9
FIIs	6.6	6.3	5.9	6.1
DIIIs	4.8	4.2	4.3	2.8
Public/others	27.7	28.5	28.8	29.2

Source: BSE

| Promoters Pledging (%)

Promoters pledged shares	0.0	0.0	0.0	4.9
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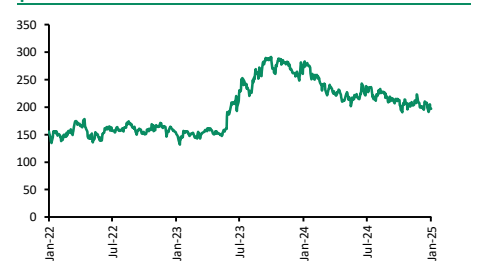
Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
Nifty 50	-1.0	-6.1	8.2	31.5
Nifty 500	-2.3	-7.0	11.3	42.0
SSWL	-2.1	-7.7	-27.6	22.5

*as on 20th Jan, 2025; Source: AceEquity, SMIFS research

| 3 Year Price Performance Chart



Source: BSE

Q3FY25 –Nearly in-line stable overall performance, export guidance cut for FY25

- Operational performance was largely in line with our expectations. EBITDA margin remained broadly stable at around 11.0% (+20bps higher than our estimates).
- Exports remained laggard led by continued weakness in US & EU markets, although it is expected to witness improvement from the coming quarter led by demand uptick, uncertainty of elections largely behind in US market & tariff imposition on China.
- Management has cut its export revenue guidance from earlier Rs6-6.5bn to Rs5.5-6bn. We anticipate exports revenue to be largely at the lower band of the guidance for FY25E.

Improvement in EBITDA per wheel led by higher share of premium products

- EBITDA per unit grew by mere ~1% to Rs 255 in Q3FY25 led by better control on cost & better product mix and efficiencies.
- We expect EBITDA per unit to rise to Rs 258 in FY26E and Rs 271 in FY27E (excluding Knuckle Casting business, which itself is good mid-teens margin business).
- Alloys, Exports and Off-road segment should support in improving EBITDA per unit in the foreseeable future. On a conservative basis, its high-margin alloy wheels' revenue contribution is projected to increase from ~28% in FY24 to ~32% in FY27E. Similarly, exports to see a dip in FY25E to 13.3% of revenue before increasing to 14.0% level by FY27E.
- Additionally, mid-teens margin businesses such as Tractors, OTR, and the start of Knuckle casting revenue will further enhance value.
- Alloy domestic growth is projected to grow at ~9% CAGR from FY25E to FY27E due to premiumization, with alloy exports expected to grow at double-digit rate (33% CAGR on a low base).
- SSWL is targeting existing aftermarket steel wheel customers for cross-selling alloys in international markets, indicating strong growth potential. The company has signed long-term agreements with several tractor OEMs and identified new international markets for the OTR segment, supporting growth and margins.

Y/E Mar (Rs mn)	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)	Q3 FY25e	Var. (%)
Revenue	10,747	11,103	(3.2)	10,951	(1.9)	11,063	(2.9)
Gross margin (%)	36.4	35.5	84 bps	36.8	(45) bps	-	-
EBITDA	1,183	1,167	1.4	1,200	(1.4)	1,196	(1.1)
EBITDA margin (%)	11.0	10.5	50 bps	11.0	5 bps	10.8	20 bps
Other income	29	17	72.8	31	(6.2)	-	-
Interest expense	262	251	4.6	304	(13.6)	-	-
PBT	697	708	(1.5)	674	3.4	-	-
Taxes paid	179	113	58.9	172	4.0	-	-
Effective tax rate (%)	25.7	15.9	975 bps	25.5	13 bps	-	-
Reported PAT	518	595	(12.9)	502	3.3	498	4.0
PAT margin (%)	4.8	5.4	(54) bps	4.6	24 bps	4.5	32 bps

Source: Company, SMIFS research

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Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	40,405	13.5	4,428	11.0	1,938	-5.7	12.4	18.6	14.1	12.9	7.0
FY24	43,571	7.8	4,652	10.7	2,199	13.5	14.0	17.7	12.5	16.7	10.1
FY25e	43,150	-1.0	4,723	10.9	2,030	-7.7	12.9	14.1	12.2	15.2	8.0
FY26e	46,818	8.5	5,183	11.1	2,583	27.3	16.5	15.7	12.9	12.0	7.1
FY27e	51,653	10.3	5,832	11.3	3,135	21.4	20.0	16.4	13.8	9.9	6.2

Source: Company, SMIFS research, incorporated Knuckle casting from FY25 onwards in financials

No major capex, good FCF generation will get used to repay debt

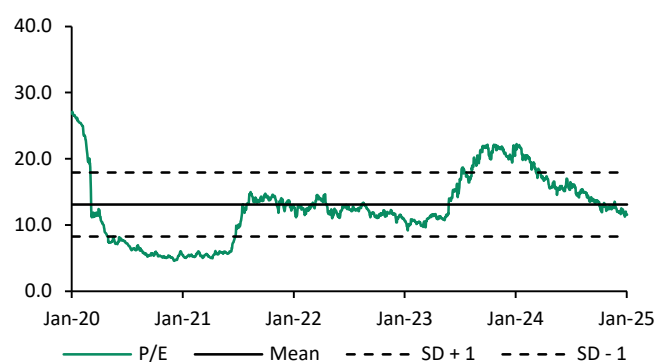
- No major capital expenditure is anticipated as AMW has been acquired and alloy wheels capacity has been expanded to nearly 5mn units annually.
- FY25E & FY26E capex estimated will be ~Rs1.5bn (incl. maintenance capex). This will be done to be met entirely through internal accruals. The capex would be majorly utilized for alloy wheels and knuckles capacity expansion.
- The company is expected to generate close to Rs5.3bn in free cash flows combined in FY25E-FY27E, which we anticipate will be used to repay/pre-pay Rs.2.2bn in total loans, reducing interest costs and benefiting EPS.
- Reduction of debt will decrease interest liability. Therefore, Interest cost is projected to decrease from Rs1.0bn in FY24 to ~Rs716mn in FY27E.

1st mover advantage in Knuckle casting, intelligently taking decisions for AMW

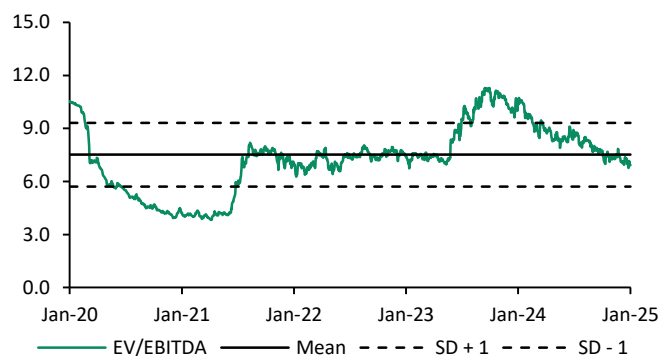
- SSWL is the first company in India to manufacture knuckle casting, which boasts healthy EBITDA margin in the mid-teens.
- The company, which already counts M&M among its clients, has recently added two more OEMs. The demand for knuckle casting is expected to rise rapidly due to the growth of EVs and the trend towards light-weighting.
- The knuckle casting business contributed Rs20mn in Q3FY25 with Rs144mn revenue for FY25E which will increase to Rs929mn by FY27E. This high growth rate will continue due to strong orders in hand.
- The company plans to invest Rs 600mn in capex for knuckle casting to double its capacity to 0.5 million units per annum in FY25E & adding another capacity of 0.5mn taking the total capacity to 1mn units by FY26E.
- Instead of restarting the AMW plant and turning it into a cost center, management has begun relocating equipment from AMW to existing SSWL plants in Chennai and Jamshedpur.
- This strategy will efficiently utilize AMW's assets, saving on power, water, employee, and other costs at the AMW plant, while increasing capacities at the SSWL plants.

Growth drivers intact, valuation inexpensive

- SSWL presents an attractive investment opportunity with a valuation of 17x/14x FY26E/FY27E estimated EPS.
- The company stands as a clear candidate for re-rating due to its aggressive growth plans, trending mix towards high-margin businesses, and superior return profile.
- Our valuation methodology involves assigning an P/E multiple of 14.0x to March 27E estimated EPS of approximately Rs 20, resulting in a fair value of Rs 280 per share. This implies an upside of around 42.0% from the last closing price. Roll-over from Sept 26E to March 27E.

Fig 1: 1-year forward P/E


Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA


Source: AceEquity, SMIFS research

Fig 3: Change in Estimates

Rs (in mn)	New Estimates			Old Estimates			Change (%)		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e
Revenue	43,150	46,818	51,653	43,475	47,492	52,103	-0.7%	-1.4%	-0.9%
Gross profit	15,534	16,854	18,595	15,220	16,674	18,345	2.1%	1.1%	1.4%
Gross margin (%)	36.0	36.0	36.0	35.0	35.1	35.2	99 bps	89 bps	79 bps
EBITDA	4,723	5,183	5,832	4,796	5,368	6,034	-1.5%	-3.4%	-3.4%
EBITDA margin (%)	10.9	11.1	11.3	11.0	11.3	11.6	(9) bps	(23) bps	(29) bps
PAT	2,030	2,583	3,135	2,200	2,891	3,634	-7.7%	-10.6%	-13.7%
EPS (Rs)	12.9	16.5	20.0	14.0	18.4	23.2	-7.7%	-10.6%	-13.7%

Source: Company, SMIFS research

Q3FY25 – Key takeaways from the management call

Demand Outlook: Growth momentum in the 2W/3W segment is expected to continue in both volume and value. The CV segment is likely to see some recovery in Q4FY25, driven by increased government spending. The Tractor industry is expected to outperform, with ~20% growth anticipated in FY25. Export recovery is projected to be strong in Q4FY25E.

Alloy Wheels: As per management Q4FY25 is expected to be the best quarter, anticipating ~3.4mn wheel sales in FY25E at 90% utilization levels. The capacity by FY25E end to be 4.2mn wheels with plans are underway to further increase capacity to 4.8mn wheels by FY26E, with potential debottlenecking pushing capacity to 5.2mn wheels by FY27E. Utilization levels on the expanded capacity are projected at around 75-80% in FY26E. Maruti's shift from steel to alloy wheels has provided an entry point into their business, with operations expected to commence by the end of FY25E or early FY26E. Management expects alloy exports to grow by 40% in FY25E. The long term plan is to increase capacity of alloy wheels to 10mn wheels in next 5 years.

Exports: FY25 export revenue is anticipated to be Rs5.5-6bn, downward from earlier guidance of Rs6-6.5bn. Two RFQs have been received for tractor exports, with more updates expected in Q4FY25E. The company is continuously working to add new customers and geographies, especially in the Tractor and OTR segments. Pricing actions due to low demand are ongoing, but the intent is to maintain margin profiles. Once exports turnaround by next quarter, existing customers are expected to support increased sales. Efforts are being made to secure long-term agreements with customers. Management expects strong recovery in exports in Q4FY25E with no election uncertainty and potential benefit from higher tariffs on China products by new Trump administration. Around 17 SKUs has been selected for the OTR and Tractors segment, with mass production for some already started and more production to start in FY26E. Further, company has also been nominated by a Korean supplier the production to commence in FY26E.

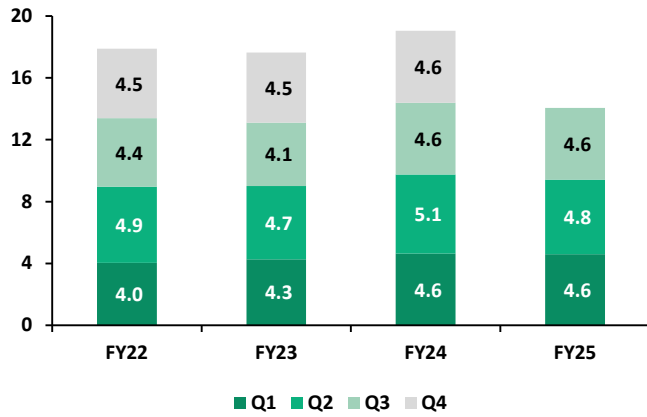
Tractor & OTR: LTAs have been signed with tractor OEMs, positioning the company to outperform industry growth with an aim of 9-12% growth in FY25E. In the OTR segment, work is ongoing with three customers, with supplies starting but significant results expected from Q1FY26E onwards.

Aluminum Knuckle Casting: The industry size is projected to be Rs10bn over the next 3-4 years. Current capacity is 2.5 lakh units operating at 35% utilization levels, with plans to double to 5.0 lakh units utilization expected to reach ~65% by FY25E. Revenue guidance: Rs140-150mn for FY25E, Rs800mn for FY26E, and Rs1.05-1.15bn for FY27E. In Q3FY25, reported revenue was Rs20mn. Margin levels to be clearly visible at ~65% capacity utilization levels to be achieved in Q4FY25E. Discussions are ongoing for two new safety products, lower and upper control arms, with engineers.

AMW AutoComponent: Equipment is being moved to other plants for better utilization. Capacity at the Jamshedpur plant will increase by 40-45K wheels this year & will further increase.

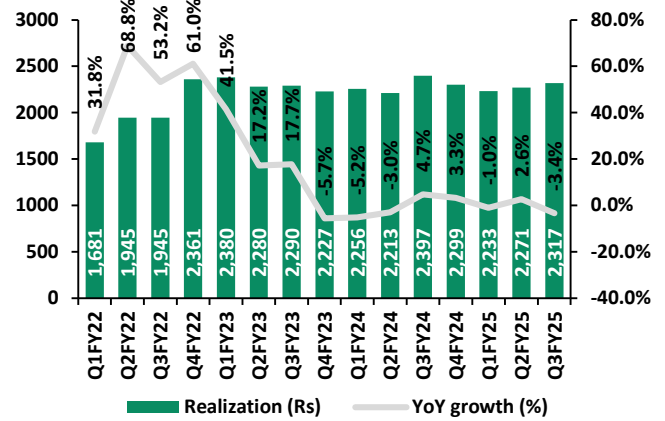
Other Key Highlights: Capex guidance has been maintained at Rs2.0bn for FY25E & FY26E each incl. maintenance capex with funding entirely through internal accruals. Key investment areas include alloy wheels, knuckle casting, flow form equipment, solar panels, etc. Accelerated borrowings repayment led by robust FCF with anticipation of Rs1.0bn debt repayment annually. We expect Rs3bn of debt will be repaid in the next two fiscal years by FY27E. The company is focused on gradually improving margins further.

Fig 4: Quarterly Volumes (in mn units)



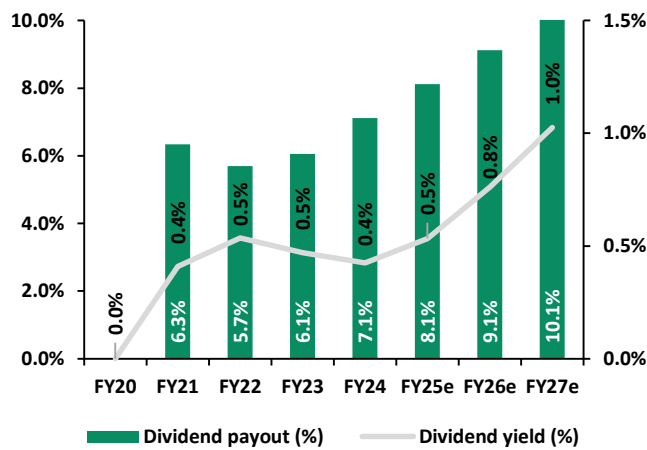
Source: Company, SMIFS research

Fig 5: Quarterly realization & growth



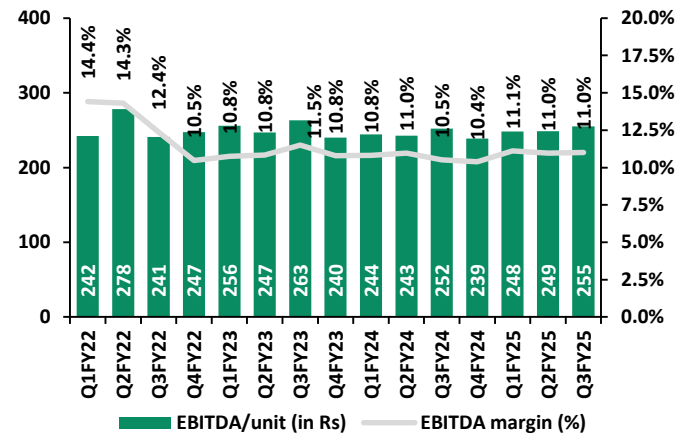
Source: Company, SMIFS research

Fig 6: Dividend payout



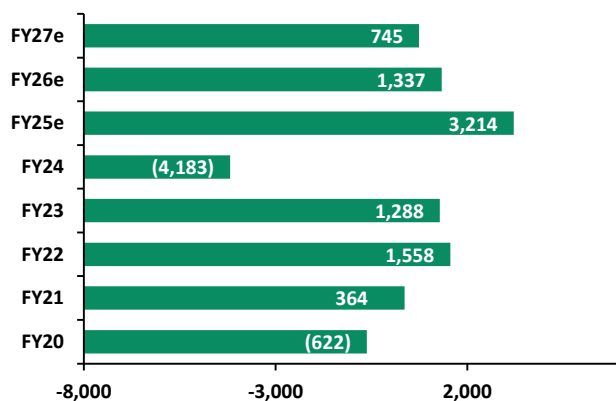
Source: Company, SMIFS research

Fig 7: Quarterly EBITDA/unit & margin



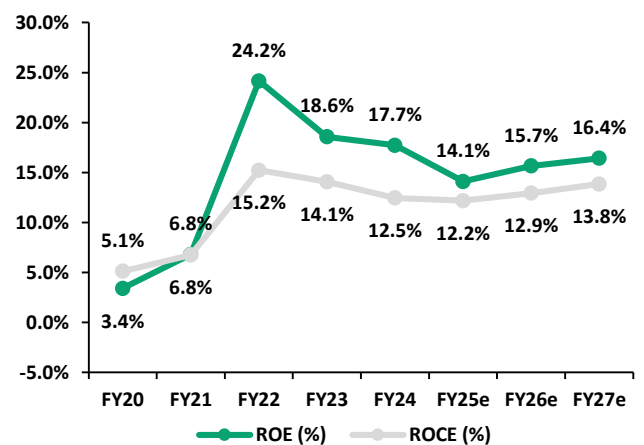
Source: Company, SMIFS research

Fig 8: FCF Generation



Source: Company, SMIFS research

Fig 9: RoE & RoCE trend (%)



Source: Company, SMIFS research

Quarterly financials, operating metrics & key performance indicators

Fig 10: Quarterly Financials

Y/E March (Rs Mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Sales	10,049	10,444	11,337	11,103	10,687	10,253	10,951	10,747
Raw Materials	6,587	6,748	7,472	7,160	6,980	6,641	6,921	6,840
Employee Costs	785	883	896	899	903	902	948	969
Other Expenditure	1,592	1,683	1,725	1,877	1,693	1,570	1,882	1,754
EBITDA	1,085	1,130	1,244	1,167	1,111	1,140	1,200	1,183
Depreciation	200	224	225	225	225	249	253	253
Interest	227	236	260	251	280	311	304	262
Other Income	67	42	30	17	72	39	31	29
PBT	725	712	789	708	678	619	674	697
Tax	252	236	265	113	74	157	172	179
Tax rate (%)	34.8	33.2	33.6	15.9	10.9	25.4	25.5	25.7
Reported PAT	473	476	524	595	603	462	502	518
Extraordinary Items	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	473	476	524	595	603	462	502	518
YoY Growth (%)								
Revenue	(5.5)	2.8	4.9	18.3	6.3	(1.8)	(3.4)	(3.2)
EBITDA	(2.6)	3.4	6.2	8.2	2.4	0.9	(3.6)	1.4
PAT	(3.2)	(1.1)	(4.0)	36.0	27.6	(2.9)	(4.2)	(12.9)
QoQ Growth (%)								
Revenue	7.1	3.9	8.6	(2.1)	(3.7)	(4.1)	6.8	(1.9)
EBITDA	0.5	4.2	10.1	(6.2)	(4.8)	2.6	5.3	(1.4)
PAT	8.1	0.6	10.1	13.6	1.4	(23.4)	8.7	3.3
Margin (%)								
RMC/revenue (%)	65.5	64.6	65.9	64.5	65.3	64.8	63.2	63.6
Gross margin (%)	34.5	35.4	34.1	35.5	34.7	35.2	36.8	36.4
Employee cost/revenue (%)	7.8	8.5	7.9	8.1	8.4	8.8	8.7	9.0
Other expenses/revenue (%)	15.8	16.1	15.2	16.9	15.8	15.3	17.2	16.3
EBITDA margin (%)	10.8	10.8	11.0	10.5	10.4	11.1	11.0	11.0
PAT margin (%)	4.7	4.6	4.6	5.4	5.6	4.5	4.6	4.8
Operational metrics								
Volumes (in mn)	4.5	4.6	5.1	4.6	4.6	4.6	4.8	4.6
Realization per wheel	2,227	2,256	2,212	2,397	2,299	2,233	2,271	2,317
Gross per wheel	767	798	754	851	798	787	836	842
EBITDA per wheel	240	244	243	252	239	248	249	255

Source: Company, SMIFS research

Fig 11: Key Assumptions

Operating Details	FY22	FY23	FY24	FY25e	FY26e	FY27e
Volumes (Mn units)	17.9	17.6	19.0	18.7	19.7	21.1
Growth (%)	33.9	-1.5	8.0	-1.9	5.7	6.7
Blended Realization per wheel (Rs)	1,991	2,293	2,290	2,305	2,338	2,409
Growth (%)	52.0	15.2	-0.1	0.7	1.4	3.0
Gross Per wheel (Rs)	768	781	799	832	854	883
Growth (%)	57.7	1.8	2.3	4.1	2.6	3.4
EBITDA per wheel (Rs)	253	251	244	252	258	271
Growth (%)	66.0	-0.8	-2.7	3.2	2.4	4.9

Source: Company, SMIFS research

FINANCIAL STATEMENTS

Income Statement					
YE March (Rs mn)	FY23	FY24	FY25e	FY26e	FY27e
Revenues	40,405	43,571	43,150	46,818	51,653
Raw Materials	26,636	28,361	27,616	29,963	33,058
% of sales	65.9	65.1	64.0	64.0	64.0
Personnel	2,837	3,580	3,797	4,167	4,649
% of sales	7.0	8.2	8.8	8.9	9.0
Manufacturing & Other Expenses	6,504	6,978	7,014	7,505	8,114
% of sales	16.1	16.0	16.3	16.0	15.7
EBITDA	4,428	4,652	4,723	5,183	5,832
Other Income	124	161	124	190	203
Depreciation & Amortization	804	900	1,012	1,070	1,130
EBIT	3,748	3,913	3,835	4,302	4,905
Finance cost	835	1,027	1,123	851	716
Core PBT	2,788	2,726	2,588	3,262	3,986
Exceptional Items	-	-	-	-	-
PBT	2,912	2,886	2,712	3,452	4,189
Tax	974	687	683	869	1,054
Tax Rate (%)	33.5	23.8	25.2	25.2	25.2
Reported PAT	1,938	2,199	2,030	2,583	3,135
Adjusted PAT	1,938	2,199	2,030	2,583	3,135

Source: Company, SMIFS research, incorporated Knuckle casting from FY25 onwards in financials

Key Ratios					
YE March	FY23	FY24	FY25e	FY26e	FY27e
Growth Ratio (%)					
Revenue	13.5	7.8	-1.0	8.5	10.3
EBITDA	-2.2	5.1	1.5	9.7	12.5
PAT	-5.7	13.5	-7.7	27.3	21.4
Margin Ratios (%)					
Gross Margin	34.1	34.9	36.0	36.0	36.0
EBITDA Margin	11.0	10.7	10.9	11.1	11.3
EBIT Margin	9.3	9.0	8.9	9.2	9.5
Core PBT margin	6.9	6.3	6.0	7.0	7.7
Adjusted PAT Margin	4.8	5.0	4.7	5.5	6.1
Return Ratios (%)					
ROE	18.6	17.7	14.1	15.7	16.4
ROCE	14.1	12.5	12.2	12.9	13.8
Turnover Ratios (days)					
Gross block turnover ratio (x)	1.9	1.9	1.8	1.8	1.9
Adjusted OCF/PAT (in %)	136.5	-17.2	257.3	110.2	71.9
Debtors	66	58	58	58	58
Inventory	32	37	37	37	37
Creditors	63	50	50	50	50
Cash conversion cycle	35	45	45	45	45
Solvency Ratio (x)					
Debt-equity	0.6	0.8	0.5	0.4	0.3
Net debt-equity	0.5	0.8	0.5	0.3	0.2
Gross debt/EBITDA	1.4	2.3	1.7	1.4	1.0
Current Ratio	1.0	1.0	1.2	1.3	1.4
Interest coverage ratio	4.5	3.8	3.4	5.1	6.8
Dividend					
DPS	0.8	1.0	1.0	1.5	2.0
Dividend yield %	0.5	0.4	0.5	0.8	1.0
Dividend payout %	6.1	7.1	8.1	9.1	10.1
Per share Ratios (Rs)					
Basic EPS (reported)	12.4	14.0	12.9	16.5	20.0
Adjusted EPS	12.4	14.0	12.9	16.5	20.0
CEPS	17.5	19.7	19.4	23.3	27.2
BV	72.5	85.8	97.6	112.6	130.5
Valuation (x)					
P/E	12.9	16.7	15.2	12.0	9.9
P/BV	2.2	2.7	2.0	1.7	1.5
EV/EBITDA	7.0	10.1	8.0	7.1	6.2
EV/Sales	0.8	1.1	0.9	0.8	0.7
Adj Mcap/Core PBT	8.8	13.4	11.5	9.0	7.5
Adj Mcap/Adj OCF	9.3	-96.8	5.7	10.3	13.3

Source: Company, SMIFS research

Balance Sheet					
YE March (Rs mn)	FY23	FY24	FY25e	FY26e	FY27e
Sources of funds					
Capital	157	157	157	157	157
Reserves & Surplus	11,191	13,300	15,165	17,512	20,330
Shareholder's Funds	11,347	13,457	15,322	17,669	20,487
Total Loan Funds	6,383	10,482	8,232	7,232	6,032
Other non-current liabilities	2,704	2,007	1,996	2,170	2,402
Total Liabilities	20,434	25,945	25,549	27,071	28,921
Application of funds					
Gross Block	21,662	23,627	25,635	27,144	28,653
Net Block	13,486	14,568	15,564	16,003	16,382
Capital WIP	1,634	3,458	1,554	799	817
Other Investments	42	92	366	1,465	2,929
Other Non-Current Assets					
Inventories	7,339	6,970	6,902	7,489	8,262
Sundry Debtors	3,487	4,397	4,355	4,725	5,213
Cash and Bank balances	440	309	1,233	1,524	955
Quasi cash investments	-	-	-	-	-
Other current Assets	516	1,577	1,577	1,577	1,577
Total Current Assets	11,783	13,253	14,067	15,315	16,007
Sundry Creditors	6,948	5,999	5,941	6,446	7,112
Other Current Liabilities	432	502	503	516	568
Total Current Liabilities	7,380	6,501	6,444	6,962	7,680
Net Current Assets	4,403	6,752	7,622	8,353	8,327
Total Assets	20,434	25,945	25,549	27,071	28,921

Source: Company, SMIFS research

Cash Flow					
YE March (Rs mn)	FY23	FY24	FY25e	FY26e	FY27e
Operating profit before WC changes	4,434	4,715	4,723	5,183	5,832
Net chg in working capital	(476)	(3,445)	2,305	(617)	(1,807)
Income tax paid	(476)	(620)	(683)	(869)	(1,054)
Cash flow from operating activities (a)	3,481	650	6,345	3,696	2,970
Adjusted OCF	2,646	(377)	5,222	2,846	2,254
Capital expenditure	(1,358)	(3,806)	(2,008)	(1,509)	(1,509)
Adjusted free cash flow	1,288	(4,183)	3,214	1,337	745
Cash flow from investing activities (b)	(1,279)	(3,700)	(1,884)	(1,319)	(1,306)
Debt issuance (repayment)	(1,396)	4,097	(2,250)	(1,000)	(1,200)
Interest and lease expenses	(835)	(1,029)	(1,123)	(851)	(716)
Dividend paid	(117)	(157)	(165)	(236)	(317)
Cash flow from financing activities (c)	(2,341)	2,920	(3,538)	(2,086)	(2,233)
Net chg in cash (a+b+c)	(139)	(131)	923	292	(569)

Source: Company, SMIFS research

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