

Stock Update Steel Strips Wheels Ltd.

September 1, 2022





Steel Strips Wheels Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 877	Buy in Rs 870-885 band and add on dips to Rs 750-765 band	Rs 958	Rs 1025	2-3 quarters

HDFC Scrip Code	STESTREQNR
BSE Code	513262
NSE Code	SSWL
Bloomberg	SSW IN
CMP Aug 30, 2022	876.9
Equity Capital (Rs cr)	15.6
Face Value (Rs)	5
Equity Share O/S (cr)	3.1
Market Cap (Rs cr)	2762
Book Value (Rs)	304.9
Avg. 52 Wk Volumes	46,000
52 Week High (Rs)	974.5
52 Week Low (Rs)	676.7

Share holding Pattern % (Jun, 2022)	
Promoters	62.6
Institutions	0.5
Non Institutions	36.9
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Steel Strips Wheels Ltd (SSWL) commands a leadership position in the steel wheels segment with an overall market share of ~50-55% while its share in the alloy segment has increased to ~33%. Demand continues to remain strong and after expanding its steel wheel capacities in FY22 it is looking to expand alloy wheel capacity in FY23. The management is concentrating more on alloy wheels and export segment both of which are higher margin segment and expects these segments to contribute ~50% of revenue in 2-3 years from 43% in FY22. SSWL has already announced resolution plan for acquisition of AMW Autocomponent (AACL) under corporate insolvency resolution process that has been approved by the committee of creditors of AACL in Sep'21. Healthy offtake of the enhanced capacities will remain key to the elevation in profitability and return on capital employed, as well as deleveraging.

India's passenger vehicle industry is recovering from the impact of the pandemic and the demand for personal mobility is increasing. Infrastructure investment and implementation of scrappage policy is likely to push CV demand. SSWL has strong growth visibility from the export market which has resulted in increased order inflows thereby reducing its dependence on domestic OEM demand. Exports contributed to around 23% of the revenue in FY22 (FY21: 15%; FY20: 14%). SSWL has invested heavily in recent years to stay ahead of the competitors especially in the alloy wheels segment. The long-standing relationships with OEM manufacturers would benefit the company in facing competition.

On September 27, 2021, we had initiated coverage on the stock ([Link](#)) with a recommendation to 'Buy in Rs 855-870 band and add on dips to Rs 755-765 band' (adjusted for stock split) for base case fair value of Rs 938 and bull case fair value of Rs 1028. The stock had achieved our base case target on October 4, 2021.

Valuation & Recommendation:

We expect SSWL's revenue/EBITDA/PAT to grow at 14/8/16% CAGR over FY22-FY24E, led by the increased demand from the domestic automobile industry and higher contribution from alloy wheels and export segment. Repayment of debt would aid in increasing profitability. Robust volume growth and mild expansion in margins over the next two years could result in expansion in valuation multiples. The Board of SSWL has announced split of the face value of the shares from Rs 5 Fv to Re 1 FV. The record date for the same could be fixed in late September or October 2022. We believe investors can buy the stock in the band of Rs 870-885 and add on dips to Rs 750-765 band (8.5x FY24E EPS) for a base case fair value of Rs 958 (10.75x FY24E EPS) and bull case fair value of Rs 1025 (11.5x FY24E EPS) over the next 2-3 quarters.



Financial Summary

Particulars (Rs cr)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Operating Income	1016	678	49.8	1063	-4.4	1749	3560	4173	4603
EBITDA	109	98	11.8	111	-1.8	204	453	459	525
APAT	48	51	-5.8	49	-1.5	49	205	224	278
Diluted EPS (Rs)	15.4	16.4	-5.8	15.7	-1.5	15.8	65.8	71.6	89.1
RoE (%)						6.8	24.2	21.2	21.8
P/E (x)						55.6	13.3	12.2	9.8
EV/EBITDA (x)						16.9	7.4	7.0	6.0

(Source: Company, HDFC sec)

Q1FY23 Result Update

SSWL continued to report strong topline growth on the back of increase in volumes. Net sales increased 50% yoy to Rs 1016cr. On a sequential basis sales decreased by 4%. EBITDA was up 12% YoY to Rs 109cr. However, EBITDA margins contracted 366 bps YoY to 10.8% due to raw material inflation which would get passed on with a lag effect. On sequential basis EBITDA margin expanded 28bps. PAT fell by 6/2% YoY/QoQ to Rs 48cr on account of higher tax rate.

The management has set a sales target of Rs 4100-4200cr for FY23 driven by a sharp jump in exports and alloy wheel sales. It has projected EBITDA margin to remain in 11-11.5% range given the current raw material prices. Debt of ~Rs 100cr is scheduled to be repaid in FY23. It has reported net sales of Rs 363cr in Jul'22 vs Rs 306cr in Jul'21.

The PV segment contributed 63% of the total Q1FY23 volumes while the rest was split between the CV segment (14%), MUV (10%), OTR (0.4%), and 2W (13%) respectively. In terms of contribution to revenue, alloy wheels contributed 28% of Q1FY23 revenues. Management is targeting to increase the share of alloy/exports to 50% over the next few years. However, due to the impact of war and the ongoing inflation, it expects exports to decline by 25-30% in FY23 to ~Rs 600-650cr.

Key Triggers

Vehicle demand to witness moderate growth

After the long-term impact of several unprecedented factors, the Indian automobile industry is bullish on achieving double-digit growth in the current fiscal year, according to market leaders. Driven by strong consumer demand and need for personal mobility, FY23 is expected to be a good year and the industry at large.



According to FADA, in FY22, Indian auto retails saw a 7% year-on-year (YoY) rise and all segments, except tractors which fell by -1%, closed in positive but fell by -25% when compared to FY'20, which was largely a pre-Covid year. While the two-wheeler (2W) segment recorded the lowest growth of 4%, three-wheelers saw a 50% rise, private vehicles (PV) witnessed 14% growth and the commercial vehicles (CV) segment saw 45% YoY growth. The demand for PVs is strong with long waiting periods for some of the models. CVs have also witnessed increasing sales on pickup in economic activity. Implementation of the scrappage policy could also provide a boost to the volume growth.

PLI Scheme could add to margins

SSWL has been selected as one of the beneficiaries under the Component Champion Incentive Scheme. The Component Champion Incentive scheme is a 'sales value linked' scheme, applicable to advanced automotive technology components of vehicles, completely knocked down/ semi knocked down kits, vehicle aggregates of two-wheelers, three-wheelers, passenger vehicles, commercial vehicles and tractors, etc.

The government earlier stated that the incentive payable for Component Champion and New Non-Automotive (Component) Investor company ranges from 8-11%, with an additional 5% incentive for battery electric vehicles and hydrogen fuel cell vehicle components. Now, according to media reports, there will be 8-13% incentive for safety items, flex fuels, CNG, LNG, emission control devices, passenger convenience items, fuel efficiency components, sensors, and others.

In December 2021, the Centre launched the PLI scheme for automobile and auto component industries, with a budgetary outlay of Rs 25,938 crore over five years to improve India's manufacturing capabilities for Advanced Automotive Products. It is divided into two parts – the Champion OEM Incentive Scheme and the Component Champion Incentive Scheme. As per the government, the Component Champion Incentive Scheme aims to discover and reward auto component champions, who can attain a global scale of operations and become 'Automotive Champions'.

Looking to enter electric motor business

SSWL is looking to enter Emotor business for 2W through a tie-up with foreign player, where the opportunity size is going to be enormous in the coming years. The company anticipates to offer it as a package alongwith wheels and will be the only player in India to initiate this move.

Reduction in debt

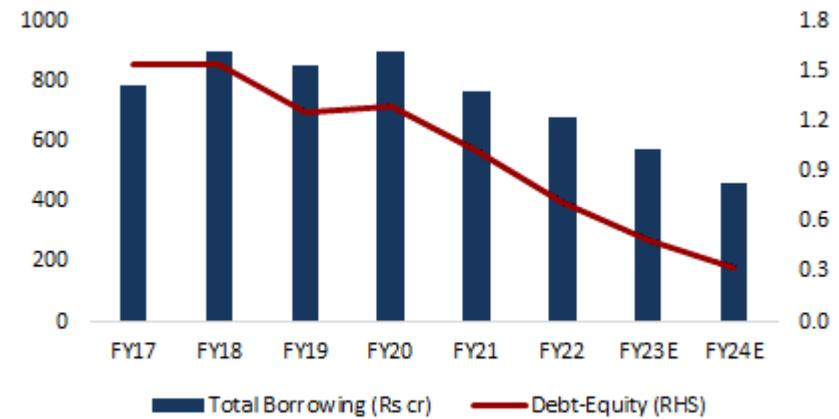
SSWL had strong operating cash flows in FY22 which is expected to continue in the coming years. The company has utilized the cash to bring down its term debt by ~100cr and plans to repay a similar amount in FY23. Company has planned capacity expansion in its alloy wheel plant at Mehsana from current 3.0 mn wheels to ~4.0 mn wheels p.a in FY23-FY24E. Capex requirement ~of Rs 60-80cr will be required for the



same which will help in adding Rs 300-400cr of topline going forward. Debt-Equity is expected to improve to 0.6x by FY23E and interest coverage to 6.6x from 1.8x in FY21.

India Ratings has on September 20, 2021 upgraded Steel Strips Wheels Limited's (SSWL's) Long-Term Issuer rating to 'IND A-' from 'IND BBB+'. The Outlook is Positive.

Reducing debt and improving debt-equity ratio



(Source: Company, HDFC sec)

Falling pledge shares instills confidence

The promoters had pledged their shares against loans in group company Indian Acrylics Ltd. The proportion of pledge shares has been gradually coming down. As of Q1FY23, 17.6% of the promoter holding was under pledge, down from 45% in FY21. The promoters are looking to revoke 5-7% of the pledged shares in FY23 and the remaining in FY24. This would eliminate the overhang on the stock and instill greater confidence in the company.

Risk & Concern

Competition from new and established players

Increasing penetration and higher profitability has attracted new players in the alloy wheel market in India. Existing players are also expanding their capacities. Higher competition could limit the growth and margin for alloy wheels for the company.



Vulnerable to cyclical demand from automobile OEMs

SSWL manufactures steel/alloy wheels for the automobile sector and is exposed to cyclical demand for automobiles. Volumes may remain partly constrained due to the continuing supply challenges in semiconductors and also the sharp increase in retail fuel prices.

Slowdown in CV sales

Though CV sales accounted for 13% in volume terms in FY22, their share was 30% in value terms. Delay in growth revival of CV industry would result in lower sales value growth.

Forex volatility risk

SSWL has been getting significant orders for US Truck & Trailer Aftermarket and EU Caravan market driven by the economic recovery in these regions. The rupee fluctuations vis-à-vis the US\$ and Euro could impact its profitability. Also economic setback in Europe could impact export volumes.

Promoter pledged shares

Promoters have pledged 17.6% of their holding for loans borrowed for company/personal purposes. In case of any failure of the promoters to pay the MTM in case of a fall in the stock price, there could be a negative impact on the stock price.

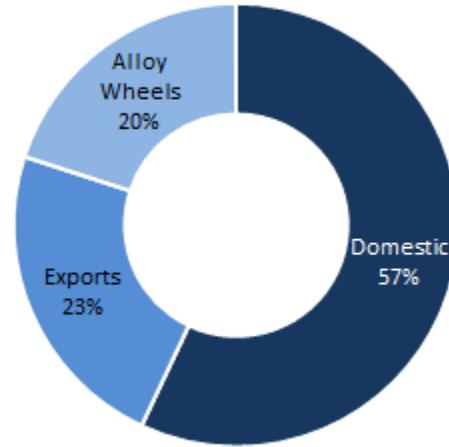
Export sales are to a large extent dependent on Truck sales trend in America and Caravan sales trend in the Europe.

SSWL does not supply alloy wheels to Maruti and Honda so far, but will start supplying to them soon.

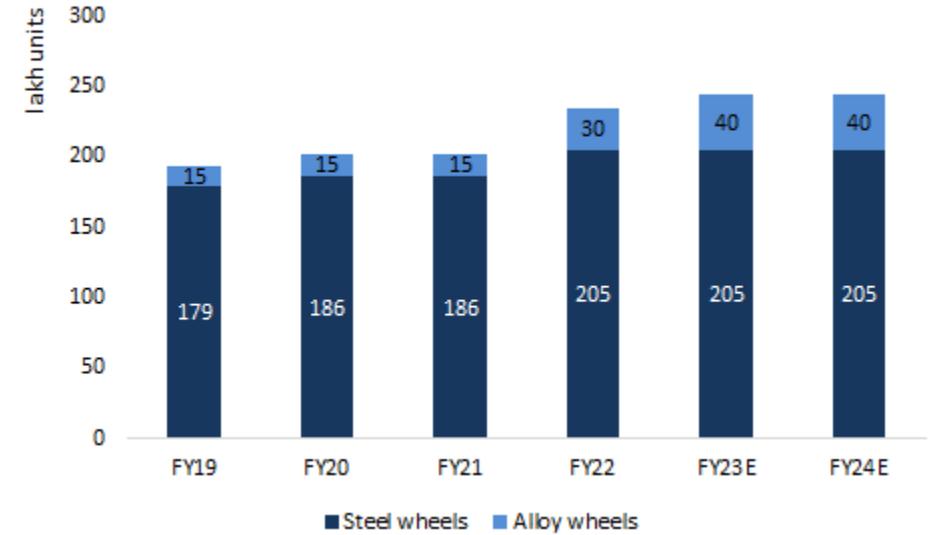
Company Background:

Established in 1985, Steel Strips Wheels Ltd. (SSWL) manufactures steel and alloy wheel rims catering to different segments of the automobile industry since 1991 and is among the leading suppliers to Indian & Global Automobile Manufacturers. Its product range comprises steel wheels for 2/3 Wheelers, Passenger cars, Multi utility vehicles, Tractors, Trucks & OTR Vehicles and alloy wheels for passenger cars. It has manufacturing units in Dappar (Punjab), Oragadam, (Chennai), Jamshedpur and Saraikela (Jharkhand), and Mehsana, Gujarat with a combined capacity of 235 lakh wheels. SSWL is looking to expand alloy wheel capacities to 40 lakh wheels by FY23. In FY22, ~80% of its sales were of steel wheel rims and 20% from alloy wheel rims.

Sales breakup (FY22)



Capacity breakup



(Source: Company, HDFC sec)

As of FY22, SSWL had four manufacturing units with a combined capacity of 235 lakh steel/alloy wheels per annum.

Location	Capacity
Dappar, Punjab	108 lakh steel wheels per annum
Chennai, Tamil Nadu	75 lakh steel wheels per annum
Jamshedpur, Jharkhand	21.6 lakh steel wheels per annum
Mehsana, Gujarat	30 lakh alloy wheels per annum

(Source: Company, HDFC Sec)

SSWL has got into various technical and strategic collaborations for the know-how and knowledge sharing for its existing as well as upcoming product lines.

Company	Alliance	Holding in SSWL
Tata Steel, India	Strategic	6.96%
Sumitomo Metal Industries, Japan	Strategic	5.45%

(Source: Company, HDFC Sec)



SSWL Export Customer Locations



(Source: Company, HDFC Sec)



Steel Strips Wheels Ltd.

Financials

Income Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	1563	1749	3560	4173	4603
Growth (%)	-23.4	11.9	103.5	17.2	10.3
Operating Expenses	1392	1546	3107	3714	4079
EBITDA	171	204	453	459	525
Growth (%)	-30.4	19.0	122.2	1.4	14.3
EBITDA Margin (%)	11.0	11.6	12.7	11.0	11.4
Depreciation	72	72	77	83	86
Other Income	22	16	13	6	9
EBIT	121	148	389	383	448
Interest expenses	89	84	85	72	64
PBT	33	64	304	311	384
Tax	9	15	98	87	106
Adj. PAT	23	49	205	224	278
Growth (%)	-71.5	110.2	317.1	8.8	24.5
EPS	7.5	15.8	65.8	71.6	89.1

Balance Sheet

As at March (Rs cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	16	16	16	16	16
Reserves	682	734	936	1138	1388
Shareholders' Funds	698	749	952	1153	1404
Minority Interest	0	0	0	0	0
Total Debt	898	769	683	572	461
Net Deferred Taxes	154	164	171	171	171
Total Sources of Funds	1750	1682	1805	1896	2035
APPLICATION OF FUNDS					
Net Block & Goodwill	1307	1259	1360	1470	1507
CWIP	85	109	97	39	16
Investments	0	0	0	0	0
Other Non-Curr. Assets	21	57	40	58	60
Total Non Current Assets	1413	1426	1497	1568	1583
Inventories	329	496	647	777	870
Debtors	210	257	392	514	605
Cash & Equivalents	92	53	58	81	63
Other Current Assets	135	144	107	194	214
Total Current Assets	766	951	1205	1568	1753
Creditors	214	412	659	800	820
Other Current Liab & Provisions	216	283	237	439	481
Total Current Liabilities	429	695	896	1240	1301
Net Current Assets	337	256	308	328	452
Total Application of Funds	1750	1682	1805	1896	2035

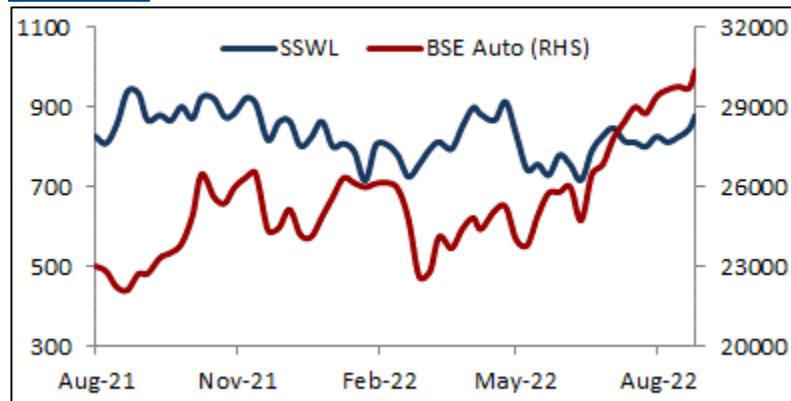


Steel Strips Wheels Ltd.

Cash Flow Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	32	64	301	311	384
Non-operating & EO items	3	-12	-11	32	22
Interest Expenses	77	84	85	72	64
Depreciation	72	72	77	83	86
Working Capital Change	-72	-25	0	-46	-166
Tax Paid	-9	-15	-46	-87	-106
OPERATING CASH FLOW (a)	104	169	406	364	285
Capex	-81	-49	-165	-135	-100
Free Cash Flow	23	120	241	229	185
Investments	0	0	0	0	0
Non-operating income	12	12	11	0	0
INVESTING CASH FLOW (b)	-69	-37	-154	-135	-100
Debt Issuance / (Repaid)	29	-60	-159	-111	-111
Interest Expenses	-92	-84	-85	-72	-64
FCFE	-28	-12	8	46	10
Share Capital Issuance	0	0	0	0	0
Dividend	-8	0	-3	-22	-28
FINANCING CASH FLOW (c)	-71	-144	-248	-205	-203
NET CASH FLOW (a+b+c)	-36	-12	5	24	-18

Price chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	11.0	11.6	12.7	11.0	11.4
EBIT Margin	7.8	8.4	10.9	9.2	9.7
APAT Margin	1.5	2.8	5.8	5.4	6.0
RoE	3.4	6.8	24.2	21.2	21.8
RoCE	7.8	9.5	24.7	22.8	25.0
Solvency Ratio (x)					
Net Debt/EBITDA	4.7	3.5	1.4	1.1	0.8
Net D/E	1.2	1.0	0.7	0.4	0.3
PER SHARE DATA (Rs)					
EPS	7.5	15.8	65.8	71.6	89.1
CEPS	30.6	38.9	90.4	98.1	116.7
BV	223.8	240.0	304.9	369.4	449.6
Dividend	0.0	1.0	3.8	7.2	8.9
Turnover Ratios (days)					
Inventory days	47	49	33	40	44
Debtor days	78	86	59	62	65
Creditors days	55	65	55	64	64
VALUATION (x)					
P/E	116.6	55.6	13.3	12.2	9.8
P/BV	3.9	3.7	2.9	2.4	2.0
EV/EBITDA	20.7	16.9	7.4	7.0	6.0
EV/Revenues	2.3	2.0	0.9	0.8	0.7
Dividend Yield (%)	0.0	0.1	0.4	0.8	1.0
Dividend Payout (%)	0.0	6.3	5.7	10.0	10.0

(Source: Company, HDFC sec)



Steel Strips Wheels Ltd.



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical nature of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Atul Karwa**, Research Analyst, **MMS-Finance**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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