

**EBITDA/Wheel Sustained; Margins to be Driven By Value-Added Products**
**Est. Vs. Actual for Q1FY25:** Revenue – **INLINE**; EBITDA – **BEAT**; PAT – **INLINE**
**Change in Estimates post Q1FY25**
**FY25E/FY26E:** Revenue: -2%/0%; EBITDA: -1%/0%; PAT: -3%/1%.

**Recommendation Rationale**

- **Outlook on Steel Wheels Business:** The steel wheels contributed ~71% to the total revenue in Q1FY25. Volume growth in FY25/26E is expected to be driven by (1) LTAs signed with various tractor OEMs, (2) an increase in export demand, and (3) expectations of substantial volume growth in the 2W business. SSWL is in the final stages of contract price/wheel negotiations with existing PV OEMs, and the management expects a positive outcome from these negotiations. However, caution is advised regarding the CV industry, as volumes are expected to remain flat/tepid in FY25E.
- **Alloy Wheel Capacity Expansion:** The company will be raising the alloy wheel capacity from 3.6 Mn in FY24 to 4.8 Mn in FY25. We expect both domestic and export revenues to grow by 7-10% in FY25. The management has indicated strong order book visibility till FY27E.
- **Higher EBITDA Margins Ahead:** The EBITDA/wheel for Q1FY25 stood at Rs 257/wheel (vs Rs 253 in Q1FY24 and Rs 256 in Q4FY24). This was achieved despite lower CV wheel and export volumes. Going forward, we expect (1) a higher mix of value-added products (i.e., a higher mix of alloy wheels), (2) renegotiations with steel wheel PV OEMs on better pricing terms, (3) growth in aluminium knuckles, and (4) higher exports to support healthy EBITDA margins.

**Company Outlook & Guidance:** We estimate total wheel volumes at 2 Cr and 2.12 Cr units in FY25/26E, respectively, owing to tepid volume growth in the CV segment. With the increasing share of alloy wheels and exports, along with the introduction of a new product line—Aluminum Steering Knuckles—we estimate the company's EBITDA and PAT to grow at 12% and 16% CAGR over FY24-26E.

**Current Valuation:** 17x PE multiple on FY26 EPS (unchanged).

**Current TP:** Rs 300/ share (unchanged).

**Recommendation:** We maintain our **BUY** rating on the stock

**Outlook**

We estimate total wheel volumes at 2 Cr and 2.12 Cr units in FY25/26E, respectively, due to tepid volumes in the CV segment. With the increasing share of alloy wheels and exports, along with the introduction of a new product line—Aluminum Steering Knuckles—we estimate the company's EBITDA and PAT to grow at 12% and 16% CAGR over FY24-26E.

**Valuation & Recommendation**

Given the anticipated demand from OTR/Tractor volumes, growth in alloy wheel orders, diversification into aluminium knuckles, expansion into 2W electric motor hub-wheels, and a focus on US and European export demand, we value the stock at 17x PE multiple on FY26 EPS (unchanged). We maintain our BUY rating with a TP of Rs 300/share (unchanged), implying a 29% upside potential from the CMP.

**Key Financials (Consolidated)**

(Rs Cr)	Q1FY25E	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,025	-4%	-2%	1,038	-1%
EBITDA	113	3%	0%	107	6%
EBITDA Margin	11.0%	74	20	10.3%	73
Adj Net Profit	40.6	-17%	-14%	39.8	2%
EPS (Rs)	2.6	-17%	-14.6%	2.5	3.4%

Source: Company, Axis Securities research

 (CMP as of 24<sup>th</sup> July' 2024)

CMP (Rs)	232
Upside /Downside (%)	29%
High/Low (Rs)	299/190
Market cap (Cr)	3,646
Avg. daily vol. (6m)Shrs.	437,604
No. of shares (Cr)	15.69

**Shareholding (%)**

	Dec-23	Mar-24	Jun-24
Promoter	61.91	60.98	60.98
FII's	6.07	5.94	6.35
MFs / UTI	0.64	1.74	1.71
Fin Inst./Banks	0.01	0.01	0.01
Others	31.37	31.33	30.95

**Financial & Valuation**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	4,357	4,592	5,111
EBITDA	464	503	580
Adj Net Profit	208	212	280
EPS (Rs.)	13.5	13.5	17.8
PER (x)	16.6	17.1	13.0
EV/EBITDA (x)	8.2	7.8	6.4
P/BV	2.4	2.3	2.0
RoE (%)	18.9	14.0	16.4

**Change in Estimates (%)**

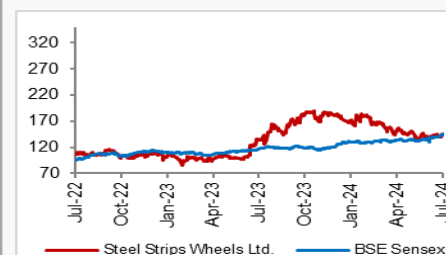
Y/E Mar	FY24	FY25E	FY26E
Sales		-2%	0%
EBITDA		-1%	0%
PAT		-3%	1%

**ESG disclosure Score\*\***

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
<b>Total ESG Disclosure Score</b>	<b>NA</b>
<b>Sector Average</b>	<b>46.4</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, The Sector average is for NSE500 companies

**Relative performance**


Source: Ace Equity, AxisSecurities.

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## Financial Performance

- Steel Strips Wheels Ltd. (SSWL) reported revenue of Rs 1,025 Cr (inline), down 2% YoY and 4% QoQ. SSWL reported EBITDA of Rs 113 Cr (6% beat), flat YoY and up 3% QoQ, with EBITDA margins of 11% (73 bps beat), up 20 bps YoY and 74 bps QoQ, respectively. This performance was driven by cost control efforts and lower other expenses. The company's consolidated PAT stood at Rs 40.6 Cr, down 14% YoY (QoQ – non-comparable due to extraordinary gains), in line with our estimates largely due to lower other income and higher financing costs.

## Key Concall Highlights

- Exports performance: The exports for Q1FY25 were Rs 123 Cr compared to Rs 154 Cr in Q1FY24. Aluminium wheels contributed Rs 15 Cr to the total mix. The management clarified that exports were primarily impacted by supply chain disruptions, higher freight costs, non-availability of containers, and postponement of alloy wheel business from certain OEMs. However, they are optimistic about the remaining part of FY25 and have guided Rs 675-700 Cr for the full year.
- AMW Auto Components: The management stated that the machinery from the AMW plant is being relocated to the Jamshedpur plant. We believe one line should be ready for commercial production in Q3FY25. The total plant capacity is expected to increase from 1.5 Lc units to 2 Lc units per month. We view this as a cost-efficient strategy that will lead to operational leverage in existing facilities while simultaneously increasing capacities. SSWL plans to use the AMW facility in the future to produce OTR wheels for exports to European and American markets.
- Debt: The company has reduced total debt from Rs 1,048 Cr as of Mar'24 to Rs 965 Cr. The management is confident of pre-paying a significant amount over the next 2-3 years using cash accruals from business operations. The capex in FY25E will be ~Rs 225 Cr (with Rs 40 Cr allocated for maintenance capex), which will be largely funded through internal accruals.

## Key Risks to Our Estimates and TP

- CV and Export demand to be monitored.
- Increased competition from peers like Wheels India and Minda Kosei

## Change in Estimates

	Revised			Old			% Change		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Sales	4,357	4,592	5,111	4,357	4,681	5,111	0%	-2%	0%
EBITDA	464	503	580	464	506	578	0%	-1%	0%
PAT	208	212	280	208	219	276	0%	-3%	1%

Source: Company, Axis Securities research

**Q1FY25 Results Review**

(Rs Cr)	Q1FY25	Axis Sec Estimates	Axis Sec Var (%)	Q4FY24	QoQ growth (%)	Q1FY24	YoY growth (%)
<b>Sales</b>	<b>1,025</b>	<b>1,038</b>	<b>-1%</b>	<b>1,069</b>	<b>-4%</b>	<b>1,044</b>	<b>-2%</b>
Other Op. Inc	0.0	0.0		0.0		0.0	
<b>Total Revenue</b>	<b>1,025</b>	<b>1,038</b>	<b>-1%</b>	<b>1,069</b>	<b>-4%</b>	<b>1,044</b>	<b>-2%</b>
<b>Expenditure</b>							
Net Raw Material	664	674.9	-2%	698	-5%	675	-2%
Employee expenses	90	92.5	-2%	90	0%	88	2%
Other Exp	158	164.1	-4%	170	-7%	168	-6%
Total Expenditure	912	932	-2%	959	-5%	931	-2%
<b>EBIDTA</b>	<b>113</b>	<b>107</b>	<b>6%</b>	<b>110</b>	<b>3%</b>	<b>113</b>	<b>0%</b>
<i>EBITDA Margins (%)</i>	<i>11.0%</i>	<i>10.3%</i>	<i>73</i>	<i>10.3%</i>	<i>74</i>	<i>10.8%</i>	<i>20</i>
Oth. Inc.	1.3	3.5	-63%	4.8	-73%	4.2	-69%
Interest	31.1	33.0	-6%	28.0	11%	23.6	32%
Depreciation	28.5	24.3	17%	36.8	-22%	22.4	27%
Exceptional Item	0.0	0.0	NA	473.1	NA	0.0	NA
Share of P/L from Associates	-0.2	0.0	NA	-0.2	NA	0.0	NA
<b>PBT</b>	<b>55</b>	<b>53</b>	<b>3%</b>	<b>523</b>	<b>-90%</b>	<b>71</b>	<b>-23%</b>
Tax	13.9	13.3	5%	7.4	88%	23.6	-41%
<i>Tax Rate (%)</i>	<i>25%</i>	<i>25%</i>		<i>1%</i>		<i>33%</i>	
<b>Reported PAT</b>	<b>40.8</b>	<b>39.8</b>	<b>2%</b>	<b>515.6</b>	<b>-92%</b>	<b>47.6</b>	<b>-14%</b>
<b>Adj PAT</b>	<b>40.6</b>	<b>39.8</b>	<b>2%</b>	<b>49.0</b>	<b>-17%</b>	<b>47.3</b>	<b>-14%</b>
<b>EPS</b>	<b>2.59</b>	<b>2.50</b>	<b>3%</b>	<b>3.1</b>	<b>-17%</b>	<b>3.0</b>	<b>-15%</b>
<b>Ratios</b>	<b>Q1FY25</b>	<b>Axis Sec Estimates</b>	<b>Change in Bps</b>	<b>Q4FY24</b>	<b>Change in Bps (QoQ)</b>	<b>Q1FY24</b>	<b>Change in Bps(YoY)</b>
GM%	35.2%	35.0%	23	34.7%	54	35.4%	-16
RM% to Sales	64.8%	65.0%	-23	65.3%	-54	64.6%	16
Personnel Cost % to Sales	8.8%	8.9%	-11	8.4%	35	8.5%	35
Other Expenses % to Sales	15.4%	15.8%	-39	16.0%	-55	16.1%	-71

Source: Company, Axis Securities research

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>4,041</b>	<b>4,357</b>	<b>4,592</b>	<b>5,111</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>4,041</b>	<b>4,357</b>	<b>4,592</b>	<b>5,111</b>
Cost of goods sold	3,403	3,683	3,873	4,289
Contribution (%)	15.8%	15.5%	15.7%	16.1%
Advt/Sales/Distrn O/H	195.1	209.7	216.4	242.3
<b>Operating Profit</b>	<b>443</b>	<b>464</b>	<b>503</b>	<b>580</b>
Other income	12	14	14	22
<b>PBIDT</b>	<b>455</b>	<b>478</b>	<b>517</b>	<b>603</b>
Depreciation	80	104	112	114
Interest & Fin Chg.	84	103	121	115
E/o income / (Expense)	0	473	0	0
<b>Pre-tax profit</b>	<b>291</b>	<b>744</b>	<b>283</b>	<b>373</b>
Tax provision	97	69	71	93
(-) Minority Interests	0	0	0	0
Associates	-0	-0	-0	-0
<b>Reported PAT</b>	<b>194</b>	<b>675</b>	<b>212</b>	<b>280</b>
<b>Adjusted PAT</b>	<b>194</b>	<b>208</b>	<b>212</b>	<b>280</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total assets</b>	<b>2,043</b>	<b>2,645</b>	<b>2,834</b>	<b>3,032</b>
Net Block	1,349	1,628	1,978	2,064
CWIP	163	363	100	100
Investments	4.1	3.7	3.7	3.7
Wkg. cap. (excl cash)	483	608	697	631
Cash / Bank balance	44	43	55	234
Misc. Assets	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>2,043</b>	<b>2,645</b>	<b>2,834</b>	<b>3,032</b>
Equity capital	16	16	16	16
Reserves	1,119	1,427	1,546	1,810
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	737	1,102	1,062	982
Def Tax Liabilities	172	101	210	224

Source: Company, Axis Securities research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Sources</b>	<b>125</b>	<b>1,058</b>	<b>379</b>	<b>312</b>
Cash profit	358	882	446	509
(-) Dividends	12	16	16	16
Retained earnings	346	866	430	494
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	3	0	0	0
Borrowings	-146	361	-40	-80
Others	-78	-169	-11	-101
<b>Applications</b>	<b>125</b>	<b>1,058</b>	<b>379</b>	<b>312</b>
Capital expenditure	180	603	200	200
Investments	4	-0	0	0
Net current assets	-48	110	83	-66
Change in cash	-12	345	96	179

Source: Company, Axis Securities research

**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Sales growth</b>	<b>13.5</b>	<b>7.8</b>	<b>5.4</b>	<b>11.3</b>
<b>OPM</b>	<b>11.0</b>	<b>10.6</b>	<b>10.9</b>	<b>11.4</b>
Oper. profit growth	-2	4.8	8.3	15.5
COGS / Net sales	84.2	84.5	84.3	83.9
Overheads/Net sales	4.8	4.8	4.7	4.7
Depreciation / G. block	3.7	4.1	3.7	3.6
Effective interest rate	10.7	11.6	11.5	11.7
<b>NPM</b>	<b>4.8</b>	<b>15.5</b>	<b>4.6</b>	<b>5.5</b>
Net wkg.cap / Net sales	0.10	0.10	0.12	0.11
Net sales / Gr block (x)	1.9	1.7	1.5	1.6
<b>RoCE</b>	<b>24.4</b>	<b>21.1</b>	<b>19.5</b>	<b>21.5</b>
Debt/equity (x)	0.62	0.74	0.66	0.52
Effective tax rate	33.5	9.2	25.1	25.0
<b>RoE</b>	<b>18.5</b>	<b>18.9</b>	<b>14.0</b>	<b>16.4</b>
Payout ratio (Div/NP)	6.1	2.3	7.4	5.6
<b>EPS (Rs.)</b>	<b>12.3</b>	<b>13.5</b>	<b>13.5</b>	<b>17.8</b>
CEPS (Rs.)	17.5	49.8	20.7	25.1
DPS (Rs.)	0.7	1.0	1.0	1.0

Source: Company, Axis Securities research

## Steel Strips Wheels Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jan-23	BUY	160	Result Update
26-May-23	BUY	165	Result Update
18-Jul-23	BUY	240	Result Update
22-Sep-23	BUY	325	Company Update
23-Jan-24	BUY	325	Result Update
28-May-24	BUY	300	Result Update
26-Jul-24	BUY	300	Result Update

Source: Company, Axis Securities research

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NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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