

# STEEL STRIPS WHEELS LTD

AUTO ANCILLARY

23 FEB 2017

Quarterly Update

**BUY**

Target Price: Rs 1,346

CMP : Rs 998  
Potential Upside : 35%

**MARKET DATA**

No. of Shares : 1.55 Cr  
FV (Rs) : 10  
Market Cap : Rs 1552 Cr  
52-week High / Low : Rs 1225/ Rs 682  
Avg. Daily vol. (6mth) : 13,005 shares  
Bloomberg Code : SSW IN  
Reuters Code : STWH.NS  
BSE Code : 513262  
NSE Code : SSWL

**Q3FY18: Profits up 44%; New CV line & Alloy wheel plant major triggers**

Steel Strips Wheels Limited's (SSWL) in 3QFY18 posted revenues of Rs 397 Cr. (up 19% Y-o-Y, up 5% Q-o-Q) due to robust wheels volume growth of 11% on a YoY basis. PAT was at Rs 18.1 Cr. (up 44% Y-o-Y, flat Q-o-Q) due to higher contribution of heavier wheels (CV, tractors, OTR). The capacity utilization for three plants combined stands at 89% for Q3FY18.

Major growth triggers for the company going forward are the brown-field CV expansion in Chennai and green-field alloy wheel plant in Mehsana, Gujarat. Both the plants have commenced production and being high margin segments, they are expected to improve the average blended realizations of the company. We expect revenues to grow at 19% CAGR and earnings to grow at 31% CAGR over FY17-20E.

**Valuations**

SSWL is well positioned in the industry owing to its increasing market share, strong entry barriers in wheels manufacturing, sticky clientele, production at backward integration plant, expansion of CV base in Chennai and foray into alloy wheels segment. We value SSWL at 13x FY20E given the growth prospects to arrive at a price target of Rs 1346 (35% Upside)

**Key Highlights**

**A. Steel Wheels Segment**

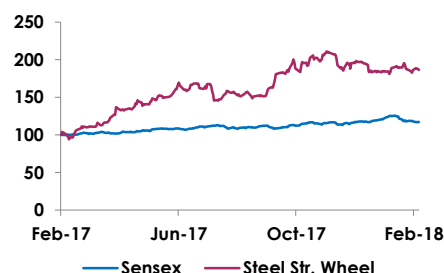
- **Segmental volumes break up and outlook-** SSWL posted robust volume growth in wheels manufacturing in Q3FY18, recording an overall volume growth of 11% Y-o-Y mainly due. Wheel volumes of all the segments grew; PV (↑4.7%), 2&3 (↑18.5%),CVs (↑34.4%),Tractors (↑11.9%) and OTR (↑16.7%) on a Y-o-Y basis. The overall capacity utilizations in Q3 stood at 89%, with Dappar plant operating at 91.3%, Chennai at 79% and Jamshedpur at 112% capacity utilizations. Going forward, we expect **good volume growth in heavier wheels primarily led by Commercial Vehicles** due to macroeconomic recovery, huge uptick in demand from CV OEMs, rationalization on loading of trucks, demand from replacement market and increase in multi-axle trucks, as well as additional CV line in Chennai contributing to exports. Exports formed around 9% of the revenues in Q3FY18.

**FINANCIAL SUMMARY**

Y/E	Sales	EBITDA	PAT	EPS	Change	P/E	RoE	RoCE	EV/E	DPS
March	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(%)	(x)	(%)	(%)	(x)	(Rs)
FY17	1332	164	71	45.7	14.1	-	21.4	17.7	-	1.5
FY18E	1525	200	76	48.8	6.7	20.5	18.8	16.0	9.6	1.5
FY19E	2047	281	130	84.0	72.1	11.9	26.0	20.9	6.4	1.5
FY20E	2270	318	161	103.6	23.4	9.6	24.9	22.7	5.2	1.5

Source: Company and Axis Securities

**PRICE PERFORMANCE**



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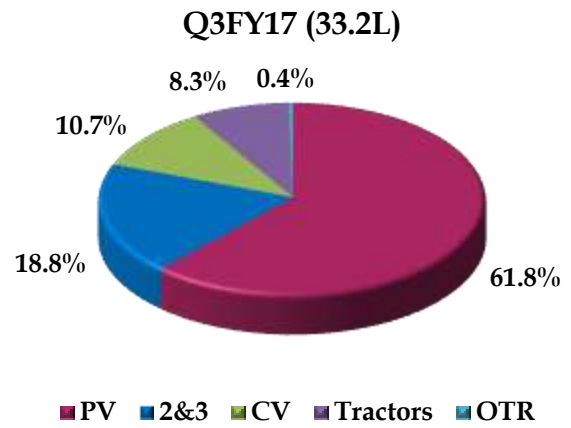
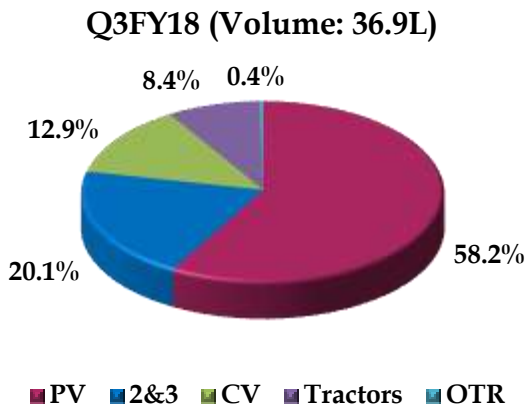
### Key Highlights (Cont'd)

- **Brownfield expansion at Chennai to boost growth:** New production lines for steel wheel rims have been set up to meet the growing demand from commercial vehicle customers down south as well as for **driving exports** from Chennai. SSWL is foraying into CV exports for the first time. The CV wheels factory in Chennai has **started production** and will have an initial output for 1.1 million wheels with Ashok Leyland and Daimler India CV being key clients. Peak turnover which can be attained with this plant is Rs 350 Cr. We expect SSWL to have a capacity utilization of 50% by FY19E. The thumb rule being, 'heavier the wheels better the realizations' will help in improving the bottom-line as utilizations increase.

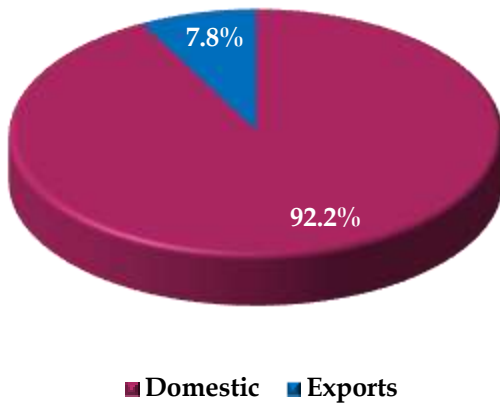
### B. Alloy wheels segment

- **Greenfield alloy wheel plant in Mehsana, Gujarat to drive growth:** With its Gujarat foray, SSWL is breaking ground in alloy wheel production for the first time with an initial capacity of 1.5 million wheels; which has been **commenced production in Q4FY18**. The technical collaboration with Kalink Korea, will see SSWL acquire the knowhow for design and production of alloy wheels. SSWL has started alloy wheel exports to Kalink in Q4FY18. It is expected to ship 30-35k wheels per month to Kalink under the buyback agreement. With this, SSWL is expected to garner ~Rs 10 Cr. export revenue per month from Kalink.
- **Good response from domestic OEMs could lead to faster ramp-up:** Peak turnover which can be attained with this initial capacity is Rs 450 Cr. We expect SSWL to have a capacity utilization of over 50% by FY19E. SSWL has already signed agreements with some major OEMs to supply alloy wheels for their models and is in discussion with several other OEMs. It has received orders from Hyundai, Tata Motors, Ford, Mahindra, Nissan etc. Seeing the response from OEMs, ramp up is expected to be faster and phase 2 (additional 1 million wheels) of alloy wheel plant which was planned to be commissioned by FY19-20E could start earlier than expected. The other major players competing in the alloy wheel segment along with SSWL are Minda Industries and Enkei Wheels.
- **High value high growth alloy wheels segment to boost margins:** Due to advantages of better appearance than steel wheels, enhanced aesthetic appeal, light weight, better fuel efficiency and adherence to stricter emission norms, the price of alloy wheel is 4-5 times the steel wheel which will have a positive impact on the margins of the company. SSWL is the only player in India to come up with diamond cut facility (~25% of alloy wheel capacity) which is a value added proposition and has better margin profile as compared to alloy wheels. Also it is the only player to come up with low pressure die casting which has lower rejection rate as compared to gravity die casting. All these factors **will improve the average blended realizations** of the product mix going forward.
- **Factors driving ROCE:** SSWL's debt levels stood at ~Rs 850 Cr as of Dec'17 (~Rs 600 Cr LT debt and ~Rs 250Cr ST debt). This includes entire debt taken for both the CV line and alloy wheels expansion as well as for Hot rolling mill. The management indicates the debt has peaked out and they are on track with debt repayment of Rs 85-90 Cr every year in the next 5 years. FY19E would be the year when SSWL would reap the real fruits of both its expansions (CV and alloy wheel). Alloy wheels and CV segment exports are expected to add significant value for the company going ahead. We expect revenues to grow at 19% CAGR and earnings to grow at 31% CAGR over FY17-20E.

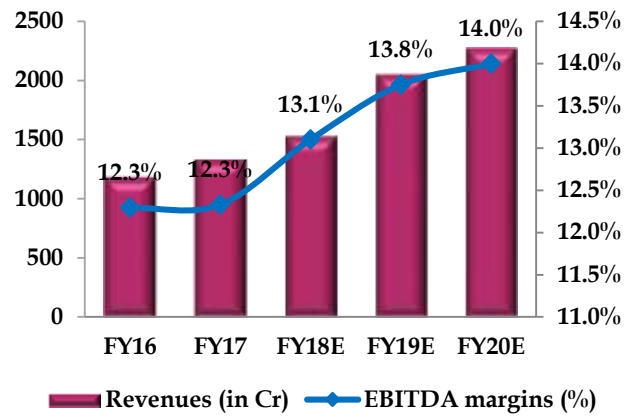
**Segmental volume break-up comparison**



**Domestic-Export breakup in 9MFY18**



**Revenues and EBITDA margin trend**



Source: Company, Axis Securities Ltd

## Result Update

(Rs. cr)	Quarter ended					12 months ended				
	Q3FY18	Q3FY17	% Change (YoY)	Q2FY18	% Change (QoQ)	FY17	FY18E	FY19E	FY20E	2 yr CAGR
<b>Sales</b>	<b>397</b>	<b>333</b>	19	<b>378</b>	5	<b>1332</b>	<b>1525</b>	<b>2047</b>	<b>2270</b>	19%
Other Op. Inc	0.0	0.0		0.0		0	0	0	0	
<b>Total Revenue</b>	<b>397</b>	<b>333</b>	19	<b>378</b>	5	<b>1,332</b>	<b>1,525</b>	<b>2,047</b>	<b>2,270</b>	
<b>Expenditure</b>										
Net Raw Material	245	201	22	231	6	798	909	1218	1346	
Employee expenses	37	34	9	34	8	118	142	187	207	
Other Exp	68	60	14	63	7	252	274	360	400	
<b>Total Expenditure</b>	<b>350</b>	<b>295</b>	19	<b>328</b>	6	<b>1167</b>	<b>1325</b>	<b>1765</b>	<b>1952</b>	18%
<b>EBIDTA</b>	<b>48</b>	<b>38</b>	26	<b>49</b>	(3)	<b>164</b>	<b>200</b>	<b>281</b>	<b>318</b>	24%
	12.0%	11.4%		13.1%		12.3%	13.1%	13.8%	14.0%	
Oth. Inc.	1.5	4.7	(69)	3.2	(55)	19.4	12.0	10.0	10.0	
Interest	12.7	13.0	(2)	17.2	(26)	42	61	58	53	
Depreciation	13.6	12.8	6	12.3	10	48	52	61	63	
Exceptional Item	0.0	0.4		0.0		1.1	0.0	0.0	0.0	
<b>PBT</b>	<b>23</b>	<b>16</b>	40	<b>23</b>	(1)	<b>95</b>	<b>98</b>	<b>172</b>	<b>212</b>	
Tax	4.8	3.7	29	5.1	(4)	24	22	41	51	
<b>PAT</b>	<b>18.1</b>	<b>12.6</b>	44	<b>18.2</b>	(0)	<b>71</b>	<b>76</b>	<b>130</b>	<b>161</b>	31%
	4.56%	3.79%		4.81%		5.33%	4.97%	6.37%	7.09%	
EPS (Rs.)	11.6	8.1		11.7		45.7	48.8	84.0	103.6	

Source: Company, Axis Securities Ltd

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HOLD	Between 10% and -10%
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