

Capacity Expansion and Product Premiumization to Drive Growth

Est. Vs. Actual for Q3FY24: Revenue – **INLINE**; EBITDA – **INLINE**; PAT – **BEAT**

Change in Estimates post Q3FY24

FY24E/FY25E: Revenue: 1%/0%; EBITDA: 1%/-1%; PAT: 7%/8%.

Recommendation Rationale

- **Outlook on EBITDA per wheel:** SSWL has improved EBITDA/wheel to ~Rs 254 in Q3FY24 from ~Rs 248 in Q2FY24. The management is confident to further improve margins on the back of product premiumization, led by increased alloy wheel business, exports, electric motor hub wheels and AL knuckles in the sales mix. The management aims to maintain medium term EBITDA/wheel margin between ~Rs 250-260 levels on the back of operational efficiencies, being partly offset by startup costs at the AMW facility.
- **Incremental Capex for AMW (Steel) and Alloy Wheel Capacity:** The company will be raising the alloy wheel capacity to 4.8 Mn wheels by Q3FY25 (from 3 Mn in FY23 and 3.6 Mn in FY24). The total Capex for FY24 is ~Rs 470 Cr (include ~Rs 138 Cr for the AMW plant and ~Rs 190 Cr for brownfield Capex for the expansion of the alloy wheel business in Mehsana, Gujarat). The AMW plant will be a wholly-owned subsidiary of SSWL and commercial production is expected to start from H2FY25 with 25k-30k CV wheels per month generating additional revenue of ~Rs 60 Cr in FY25.
- **EV Business:** As per the management, the company has a 60% market share for electric hub-motor supplies to 2W EV OEMs and has a 60-65% wallet share of business from Tata Motors and MnM each for its EV portfolio. The management expects EV business is expected to grow at 25-30% in FY25 on the back of the continuation of the FAME subsidy.

Company Outlook & Guidance: The company maintained its earlier sales volume growth guidance at 12-15% YoY in FY24. The revenue for FY24 is expected at ~Rs 4,400-5,000 Cr (vs. ~Rs 3,560/4,040 Cr in FY22/23) on current prevailing commodity price levels. This will be mainly led by increased alloy wheels sales, a pick-up in exports, and a 5%/7-8% domestic PV/CV industry volume growth. Furthermore, the introduction of a new product, namely Aluminium Knuckles in the Mehsana plant at a total Capex of ~Rs 200 Cr (1 Mn capacity), shall result in incremental revenue of ~Rs 200-250 Cr once fully ramped up in the next few years.

Current Valuation: 17x PE multiple on Dec'25EPS (unchanged).

Current TP: Rs 325/share (unchanged).

Recommendation: We maintain our **BUY** rating on the stock based on a richer product mix (alloy wheels, exports, CV), capacity additions and improvement in EBITDA/wheel in FY25E and FY26E.

Financial Performance

Steel Strips Wheels Ltd.'s (SSWL) Revenue/EBITDA/PBT stood largely in line with our estimates while PAT was a beat. Revenue stood at Rs 1,110 Cr, up 18% YoY (down 2% QoQ). This was mainly led by higher overall volumes and higher ASP (richer sales mix due to higher contribution from exports and alloy wheel); partly offset by softening in the commodity prices. SSWL reported EBITDA of Rs 117 Cr, up 8% YoY (down 6% QoQ) and EBITDA Margins of 10.5%, down 100bps YoY (47bps QoQ). This was led by higher personnel costs and lower gross margins, which was partly offset by lower other expenses (as % of sales). The company's PAT stood at Rs 60 Cr, up 36% YoY (and 13% QoQ). This was a 25% beat from our estimates and was largely on account of a lower effective tax rate vs. our assumption of 33%.

Outlook

We continue to factor in total wheel volumes at 1.95 Cr and 2.05 Cr units in FY24/25 respectively. With alloy wheels and export share increasing and the introduction of a new product line-Aluminium Steering Knuckles, we estimate the company's EBITDA/PAT to grow at 11%/17% CAGR over FY23-26.

Valuation & Recommendation

With its prudent acquisition of the AMW plant to meet CV/OTR/Tractor demand in coming years, growth in Alloy wheels order book, product diversification into AL knucklers, expansion of 2W electric motor hub-wheels business and a focus on fulfilling export demand from the US and Europe, we value the stock at 17x PE multiple on Dec'25 EPS (unchanged). Against this backdrop, **we maintain our BUY rating on the stock** with a TP of Rs 325/share (unchanged), implying an upside potential of 19% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,110	-2%	18%	1,091	2%
EBITDA	117	-6%	8%	118	-1%
EBITDA Margin	10.5%	-47	-99	10.9%	-35
Net Profit	59.5	14%	36%	47.5	25%
EPS (Rs)	3.8	13%	35.2%	3.0	24.7%

Source: Company, Axis Securities

(CMP as of 20th Jan '24)

CMP (Rs)	272
Upside /Downside (%)	19%
High/Low (Rs)	299/126
Market cap (Cr)	4,265
Avg. daily vol. (6m)Shrs.	483,461
No. of shares (Cr)	15.69

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	62.7	62.3	61.9
FII's	5.6	6.1	6.1
MFs / UTI	0.2	0.6	0.6
Fin Inst./Banks	0.0	0.0	0.0
Others	31.5	31.1	31.4

Financial & Valuation

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	4,386	4,814	5,400
EBITDA	470	528	611
Net Profit	215	254	321
EPS (Rs.)	13.8	16.2	20.5
PER (x)	19.8	16.8	13.3
EV/EBITDA (x)	9.8	8.4	6.9
P/BV	3.2	2.7	2.3
RoE (%)	17.3	17.4	18.5

Change in Estimates (%)

Y/E Mar	FY24	FY25E	FY26E
Sales	1%	0%	0%
EBITDA	1%	-1%	1%
PAT	7%	0%	1%

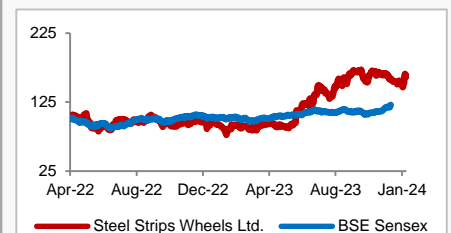
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure	NA
Sector Average	46.4

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, Sector average is for NSE500 companies

Relative performance



Source: Ace Equity, AxisSecurities.

Shridhar Kallani

Research Analyst

Email: shridhar.kallani@axissecurities.in

Aditya Welekar

Sr. Research Analyst

Email: aditya.welekar@axissecurities.in

Key Concall Highlights

- **Q3FY24 operational performance:** Overall blended sales volume (steel + alloy) stood at 4.6 Mn units, up 13% YoY and revenues were up ~18% YoY. **Exports revenue grew by 179% YoY to Rs 174 Cr during the quarter.**
- **Employee cost:** In Q3FY24, the employee expenses were higher YoY mainly due to i) Hiring of new employees in R&D for future expansion and for new businesses. ii) Facilitating incremental wages to existing employees on account of wage revision in the Q1FY24, iii) Training and development of new workers in the Mehsana plant for additional alloy-wheel capacity expansion, and iv) Higher volumes.
- **AMW Auto Components:** The management stated that the ramp-up will be gradual and it will use the plant for domestic and exports orders of CV. As per management, the AMW plant is to slowly begin production in H2FY25 mainly towards meeting export demand for CV (**initial production to range from 20k – 25k units pm**). This should generate Rs ~60 Cr in revenue in FY25 with a target to achieve ~Rs 150 Cr in FY26.
- **Debt:** The company has raised debt of Rs 100 Cr to fulfil the acquisition of the AMW plant which is expected to increase the total loan book upto ~Rs 900 Cr in FY24E. The NCLT Order was received on 12th Oct'23 and the company paid Rs 138.15 Cr on 9th Jan'24 (Rs 5 Cr in equity infused and balance via intercompany loans). The management is confident of pre-paying a significant amount in the next 2-3 years with cash accruals through business operations.
- **Effective Tax Rate:** The company has moved to the new Income tax regime wherein the effective tax rate will be ~25.2% against 33% in earlier periods.

Key Risks to our Estimates and TP

1. CV and Tractor domestic demand to be monitored.
2. 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	4,386	4,814	5,400	4,360	4,814	5,400	1%	0%	0%
EBITDA	470	528	611	463	531	608	1%	-1%	1%
PAT	215	254	312	202	254	309	7%	0%	1%

Source: Company, Axis Securities

Q3FY24 Results Review

(Rs Cr)	Q3FY24	Axis Sec Estimates	Axis Sec Var (%)	Q2FY24	QoQ growth (%)	Q3FY23	YoY growth (%)
Sales	1,110	1,091	2%	1,134	-2%	938	18%
Other Op. Inc	0.0	0.0		0.0		0.0	
Total Revenue	1,110	1,091	2%	1,134	-2%	938	18%
Expenditure							
Net Raw Material	716	709	1%	747	-4%	590	21%
Employee expenses	90	91	-1%	90	0%	74	22%
Other Exp	188	172	9%	172	9%	167	13%
Total Expenditure	994	972	2%	1009	-2%	831	20%
EBIDTA	117	118	-1%	124	-6%	108	8%
<i>EBITDA Margins (%)</i>	<i>10.5%</i>	<i>10.9%</i>	<i>-35</i>	<i>11.0%</i>	<i>-47</i>	<i>11.5%</i>	<i>-99</i>
Oth. Inc.	1.7	2.2	-23%	3.0	-43%	2.0	-17%
Interest	25.1	26.0	-4%	26.0	-4%	22.0	14%
Depreciation	22.5	23.8	-5%	22.5	0%	20.2	11%
Exceptional Item	0.0	0.0	NA	0.0	NA	0.0	NA
Share of P/L from Associates	-0.2	0.0	NA	-0.2	NA	0.0	NA
PBT	71	71	0%	79	-10%	68	5%
Tax	11.3	23.4	-52%	26.5	-57%	23.9	-53%
<i>Tax Rate (%)</i>	<i>16%</i>	<i>33%</i>		<i>34%</i>		<i>35%</i>	
PAT	59.5	47.5	25%	52.4	14%	43.8	36%
EPS (Rs.)	3.78	3.03	25%	3.3	13%	2.8	35.2%
Ratios	Q3FY24	Axis Sec Estimates	Change in Bps	Q2FY24	Change in Bps(QoQ)	Q3FY23	Change in Bps(YoY)
GM%	35.5%	35.0%	51	34.1%	142	37.1%	-161
NP%	5.4%	4.4%	101	4.6%	74	4.7%	70
personnel Cost % to Sales	64.5%	65.0%	-51	65.9%	-142	62.9%	161
Other Expenses % to Sales	8.1%	8.3%	-25	7.9%	20	7.9%	22

Source: Company, Axis Securities

Exhibit 1: Shift of Sales Mix to High Margin Alloy Wheels



Source: Company

Exhibit 2: Shift of Sales Mix to High Margin Exports Segment

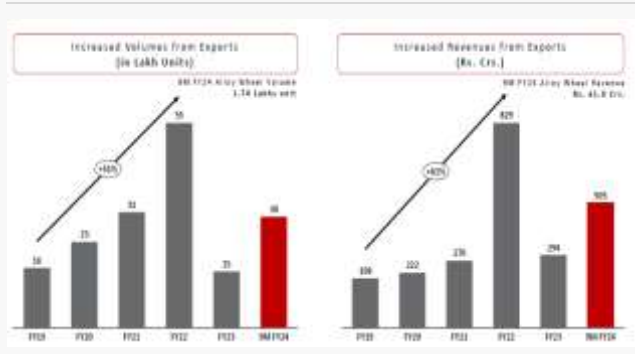
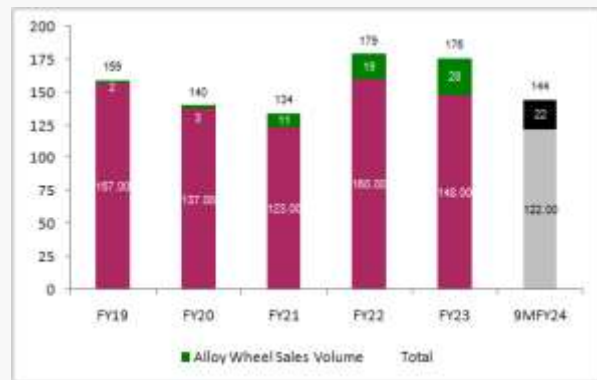


Exhibit 3: Volumes: Steel & Alloy Wheels (in Lcs)



Source: Company

Exhibit 4: Contribution to Sales (in %)

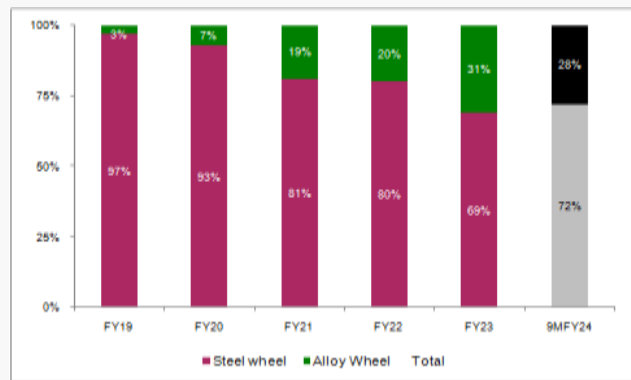
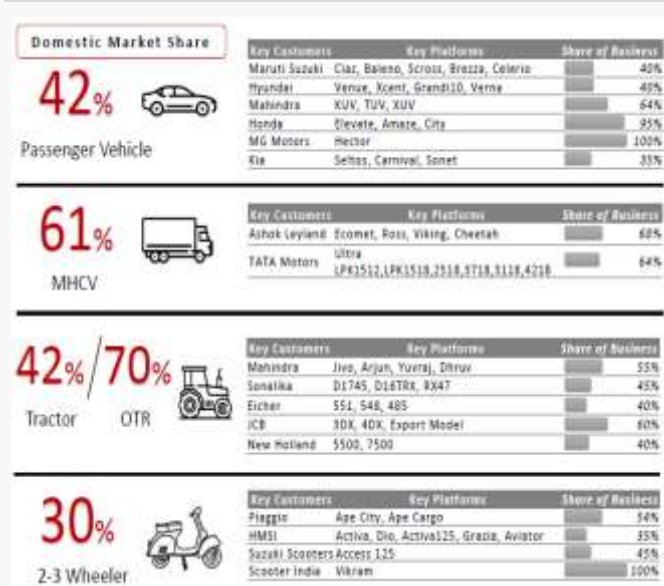


Exhibit 5: Domestic Market Share



Source: Company

Exhibit 6: Increased Exports Revenue

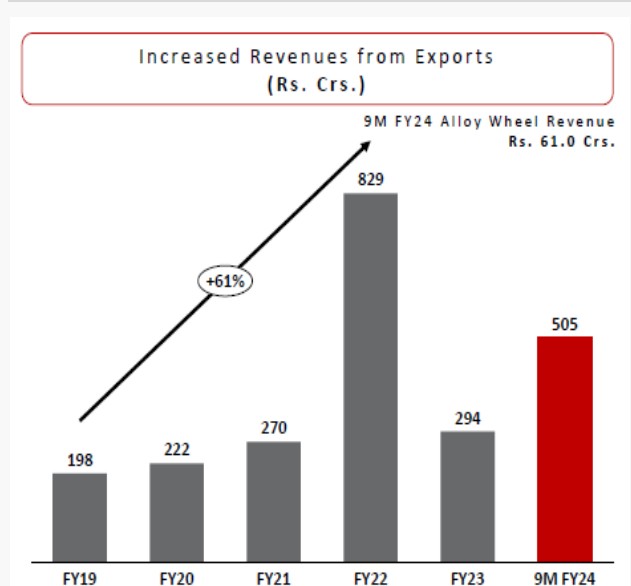
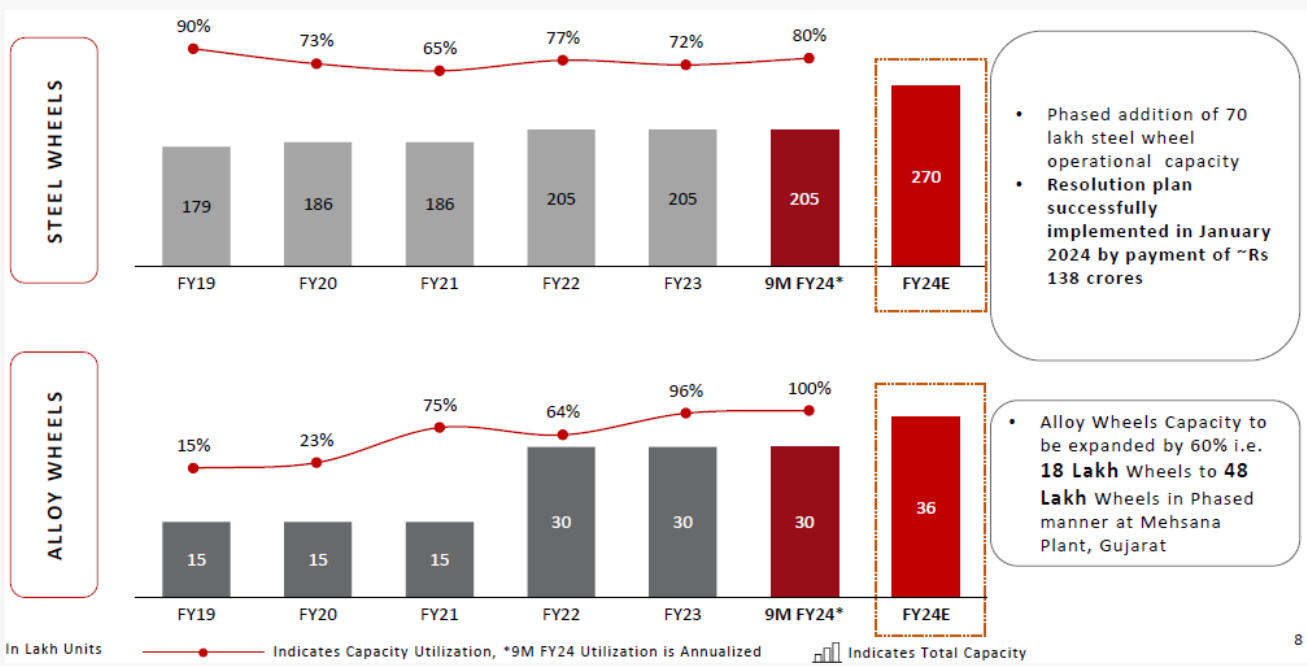


Exhibit 7: Product Capacities & Utilization


Source: Company

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	4,041	4,386	4,814	5,400
Other operating income	0	0	0	0
Total income	4,041	4,386	4,814	5,400
Cost of goods sold	3,403	3,705	4,055	4,529
Contribution (%)	15.8%	15.5%	15.8%	16.1%
Advt/Sales/Distrn O/H	195.1	210.6	231.1	259.2
Operating Profit	443	470	528	611
Other income	12	11	5	10
PBIDT	455	481	533	621
Depreciation	80	89	99	109
Interest & Fin Chg.	84	95	95	95
E/o income / (Expense)	0	0	0	0
Pre-tax profit	291	296	339	418
Tax provision	97	81	85	105
(-) Minority Interests	0	0	0	0
Associates	-0	-0	-0	-0
Reported PAT	194	215	254	312

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total assets	2,043	2,385	2,560	2,800
Net Block	1,349	1,573	1,724	1,815
CWIP	163	150	100	100
Investments	4.1	4.1	4.1	4.1
Wkg. cap. (excl cash)	483	635	622	611
Cash / Bank balance	44	23	111	270
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	2,043	2,385	2,560	2,800
Equity capital	16	16	16	16
Reserves	1,119	1,319	1,557	1,862
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	737	877	797	717
Def Tax Liabilities	172	173	191	205

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Sources	125	430	274	349
Cash profit	358	400	447	516
(-) Dividends	12	16	16	16
Retained earnings	346	384	432	500
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	3	0	0	0
Borrowings	-146	140	-80	-80
Others	-78	-94	-77	-72
Applications	125	430	274	349
Capital expenditure	180	300	200	200
Investments	4	0	0	0
Net current assets	-48	151	-13	-11
Change in cash	-12	-21	88	159

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth	13.5	8.5	9.8	12.2
OPM	11.0	10.7	11.0	11.3
Oper. profit growth	-2	6.1	12.4	15.7
COGS / Net sales	84.2	84.5	84.2	83.9
Overheads/Net sales	4.8	4.8	4.8	4.8
Depreciation / G. block	3.7	3.6	3.6	3.7
Effective interest rate	10.7	12.3	11.8	11.8
NPM	4.8	4.9	5.3	6.0
Net wkg.cap / Net sales	0.10	0.11	0.11	0.10
Net sales / Gr block (x)	1.9	1.8	1.8	1.8
RoCE	24.4	22.7	22.0	23.6
Debt / equity (x)	0.62	0.63	0.49	0.37
Effective tax rate	33.5	27.3	25.2	25.2
RoE	18.5	17.3	17.4	18.5
Payout ratio (Div/NP)	6.1	7.3	6.2	4.9
EPS (Rs.)	12.3	13.8	16.2	20.5
CEPS (Rs.)	17.5	19.5	22.5	27.4
DPS (Rs.)	0.7	1.0	1.0	1.0

Source: Company, Axis Securities

Steel Strips Wheels Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
31-Jan-22	BUY	215	Result Update
18-May-22	BUY	200	Result Update
25-Jul-22	BUY	190	Result Update
28-Oct-22	BUY	174	Result Update
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
31-Oct-23	BUY	325	Result Update
23-Jan-24	BUY	325	Result Update

About the Analyst

Analyst: Shridhar Kallani

Email: shridhar.kallani@axissecurities.in

Sector: Automobiles

Analyst Bio: Shridhar Kallani is a Chartered Accountant and a graduate from St.Xaviers College Kolkata.



Analyst: Aditya Welekar

Email: aditya.welekar@axissecurities.in

Sector: Automobiles

Analyst Bio: Aditya Welekar is a PGDBM in Finance with 12 years of experience in Equity Market/Research.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We CA Shridhar Kallani and Aditya Welekar (PGDBM), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have: Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- Axis Securities Ltd, Unit No.1001, 10th Floor, Level-6, Q2 Building, Aurum, Q Parc, Plot No. 4/1, TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai. – 400 710., Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Jatin Sanghani, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706.