

CMP: INR 205

Rating: Buy

Target Price: 266

Stock Info

BSE	513262
NSE	SSWL
Bloomberg	SSW IN
Sector	Auto Ancillaries- wheels
Face Value (INR)	1
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	36,462
52w H/L (INR)	297/189
Avg Yearly Vol (in 000')	79

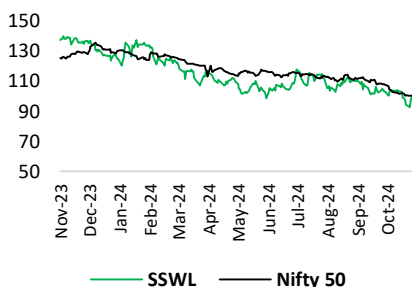
Shareholding Pattern %

(As on June, 2024)

Promoters	60.9
Public & Others	39.1

Stock Performance (%)	1m	3m	12m
SSWL	-3.49	-11.4	-24.9
Nifty	-4.0	-2.9	24.7

SSWL Vs Nifty



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Steel Strips Wheels Ltd, reported revenue & PAT below expectations; Revenue and PAT came in below our estimates, but margins held steady as expected. Revenues came in at INR 10,951 Mn (Up 6.81% QoQ) (-3.4% YoY) (below our estimate of INR 10,966 Mn). EBITDA came in at INR 1,193 Mn (5.57% QoQ) (down 4.1% YoY) (In line with our estimate of INR 1,197 Mn). EBITDA Margins came in at 10.89% (declined by 13bps QoQ and 8bps YoY) (In line with our estimate of 10.92%). PAT came in at INR 461 Mn (up 12.99% QoQ) (down by 11.84% YoY) (below our estimate of INR 481 Mn)

Investment Rationale

Export recovery on cards: The target is set at INR 6,500 Mn, with INR 2,730 Mn achieved in H1 FY25. While reaching INR 6,500 Mn seems challenging, the company is now targeting INR 6,000 Mn due to increased freight costs from China and Singapore, as well as anticipated political turmoil in the US. Achieving the INR 6,500 Mn export target appears difficult but not impossible, especially considering the situation in Europe and current freight costs. Total PV exports to Europe are down by 15-30%. However, the company maintains strong relationships with customers in the current landscape.

Aluminum Knuckle Business will commence in Q3FY25: The commercialization of the aluminum knuckle will start in Q3 FY25 with two OEMs. The aluminum knuckle market could reach around INR 5,000 Mn in the next 2-3 years, and SSWL has a first-mover advantage in this sector. The next phase of forward integration will introduce two new components in a knuckle kit: the Lower Control Arm and Upper Control Arm. Given the safety implications of the product, customer adoption may be gradual. Discussions are underway with several OEMs to establish mega factories for aluminum knuckles with a capacity of around 1 million units. The knuckle business is expected to have double-digit margins, with further guidance available in Q3 FY25.

Debt: The company has reduced total debt from INR 10,480 Mn as of Mar 24 to INR 9260 Mn. The management is confident of pre-paying a significant amount (INR 3000 Mn approx) over the next 2-3 years using cash accruals from business operations. The capex in FY25E will be under INR 2000 Mn (lower than INR 2250 Mn as earlier guided), which will be largely funded through internal accruals.

Outlook and valuation

Commercialization of the aluminum knuckle will commence in Q3FY25 with two OEMs. The aluminum knuckle market could reach around 5000 Mn in the next 2-3 years. SSWL has a first-mover advantage in this sector. The next phase of forward integration involves introducing two new components in a knuckle kit (Lower Control Arm and Upper Control Arm). Given the safety nature of the product, customer adoption may be gradual. Discussions are underway with several OEMs to establish mega factories for aluminum knuckles with a capacity of around 1 mn units. The knuckle business is expected to have double-digit margins, with more guidance available in Q3FY25. on the Alloy Wheel Penetration has increased from 4-5% (earlier year) to 31% and target to 40% revenue contribution. The rise is attributed to electric vehicles. The company is targeting export of INR 6000 Mn (Earlier Guidance INR 6500 Mn) due to freight costs have increased from China and Singapore, and given the political situation in the US, expect considerable turmoil. Optimistic about demand improvement in the coming quarter. We estimate the company's Revenue/EBITDA to grow at 9.3%/12.1% CAGR over FY25-27E.

At a CMP of INR 205, SSWL is trading at a EV/EBITDA of 4.1x to its FY27E EBITDA of INR 6,022 Mn. We value the stock on a P/E (x) multiple of 16x to its FY27E EPS INR 16.6 which yields a target price of INR 266 per share. We maintain our Buy rating on the stock.

Exhibit 1: Financial Estimates

Year End-March INR Mn	FY24	FY25E	FY26E	FY27E
Revenues	43,571	44,029	50,048	52,644
EBITDA	4,640	4,788	5,628	6,020
EBITDA Margin (%)	10.65%	10.87%	11.25%	11.44%
PAT	6,747	1,955	2,355	2,603
ROE	46.78%	9.91%	10.74%	10.68%
EPS	43.1	12.5	15.0	16.6
P/E	4.8	16.4	13.6	12.3

Source: Company, Arihant Research

Exhibit 2: Quarterly Performance

Consolidated (INR Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from operations	10951	10253	11337	-3.4%	-3.4%
Cost of materials consumed	7049	6490	7482	-5.8%	-5.8%
Change in inventory	-129	151	-9		
Cost of Goods Sold (COGS)	6921	6641	7472	-7.4%	-7.4%
Gross Profit	4030	3612	3865	4.3%	4.3%
Employee benefits expense	948	902	896	5.9%	5.9%
Other expenses	1889	1580	1725	9.5%	9.5%
Total operating Expenses	9758	9123	10093	-3.3%	-3.3%
EBITDA	1193	1130	1244	-4.1%	-4.1%
EBITDA Margin (%)	10.89%	11.02%	10.98%	74bps	20bps
Depreciation and amortisation expenses	275	285	225	22.5%	22.5%
EBIT	917	845	1019	-10.0%	-10.0%
EBIT Margin (%)	8.38%	8.24%	8.99%	20.5%	-5.0%
Finance costs	304	311	260	16.8%	16.8%
Other income	5	13	30	-83.4%	-83.4%
PBT	618	547	789	-21.6%	-21.6%
Share of profit/loss from associates	0.89	0.36	(1.15)		
Exceptional items	-	-			
PBT	619	547	788	-21.4%	-21.4%
Tax Expense	158	139	265	-40.3%	-40.3%
Tax Rate	25.5%	25.4%	33.6%	-	-
PAT	461.1	408.1	523	-11.8%	-11.8%
EPS	2.94	2.60	3.34	-12.0%	-12.0%

Source: Company, Arianth Research

Steel Strips Wheels Ltd- Q2FY25 Concall KTAs

Outlook Optimistic about demand improvement in the coming quarter.

Alloy wheel 31% and balance 69% for the steel wheel EBITDA

Aluminum Knuckle Commercialization expected in Q3FY25

Exports: Target of 6500 Mn, already did INR 2730 Mn in H1FY25. While 6500 Mn seems challenging, now company is targeting of INR 6000 Mn due to freight costs have increased from China and Singapore, and given the political situation in the US, expect considerable turmoil. Achieving the 6500 Mn export target appears challenging but not impossible, considering the situation in Europe and freight costs.

Passenger Vehicle Exports: Total exports to Europe are down by 15-30%. The company has strong relationships with customers given the current landscape.

Alloy Wheel Growth: The alloy wheel market is experiencing 50% growth, focusing on aluminum wheels.

Commercial Vehicle Demand: Domestic demand is down by 15-16%, with an industry downgrade of 7%. Historically, improvements are expected in H2FY25, but anticipate a 1-2% decline in volume temporarily.

Tractor Industry: Expected to remain flat; Domestic foresee 12% growth in H1FY25 and a total MS in company of 41% for FY25 36% against . The company targets volume 9-11% growth for FY25.

EBITDA Per wheel: In H1, EBITDA per wheel was INR 256, up from INR 251 last year, with margin improvements expected as the mix shifts.

Alloy Wheel Penetration: Increased from 4-5% to 31% and target to 40% revenue contribution. The rise is attributed to electric vehicles.

Aluminium knuckle: Q4 capacity is expected to reach 70%, with ongoing progress in knuckle production. Export targets are prioritized in this sector.

European Knuckle Integration: Forward integration is on the horizon. The company is actively engaging with new customers through RFQs, maintaining 100% business with existing customers.

Value Addition: 2500 Mn expected in value addition from aluminum knuckles, with visibility for 75-80k units in October FY24-25 and a projected revenue of 1000-1500 Mn.

Kit Size: In India, the visibility for Q1 FY26 is estimated at 5-10%, with business prospects from global markets.

Debt: The company has reduced total debt from INR 10,480 Mn as of Mar 24 to INR 9260 Mn. The management is confident of pre-paying a significant amount (INR 3000 Mn approx) over the next 2-3 years using cash accruals from business operations.

Production Issues: The first 4.1 mn units sold out, and de-bottlenecking efforts will be implemented in the next financial year.

Northern Plant: The company is assessing the performance of a newly detected plant in the north.

EBITDA Improvement: EBITDA per wheel has improved to INR 256 in H1 FY25, compared to INR 251 last year, and is expected to increase with more alloy wheel exports.

US Market Uncertainty: The upcoming US elections add uncertainty. If Trump wins, it could present a favorable business scenario for India.

Capex Guidance: The capex in FY25E will be under INR 2000 Mn (lower than INR 2250 Mn as earlier guided), which will be largely funded through internal accruals.

Alloy Wheel Penetration Growth: Steady at 36-37% over the last 10-12 months, it recently jumped to 40-41%. The company will monitor if this growth is sustainable or just a festive spike.

Style Wheels Decline: Penetration of style wheels has dropped recently.

Maruti Bulk Orders: Anticipated by the end of FY25 or the start of FY26.

Aluminum Knuckle Business

Commercialization of the aluminum knuckle will commence in Q3FY25 with two OEMs. The aluminum knuckle market could reach around 500 cr in the next 2-3 years. SSWL has a first-mover advantage in this sector.

The next phase of forward integration involves introducing two new components in a knuckle kit (Lower Control Arm and Upper Control Arm). Given the safety nature of the product, customer adoption may be gradual.

Expect the kit value to increase from INR 2,500 to INR 11,000. Production began in October with a target of 3,000 units per month, expecting 15 cr in business for H2 FY25, 65-70 cr in FY26, and 115-120 cr in FY27 with further expansion.

Discussions are underway with several OEMs to establish mega factories for aluminum knuckles with a capacity of around 1 million units. The knuckle business is expected to have double-digit margins, with more guidance available in Q3FY25.

Story in charts (INR in Mn)

Exhibit 3: Export recovery on cards

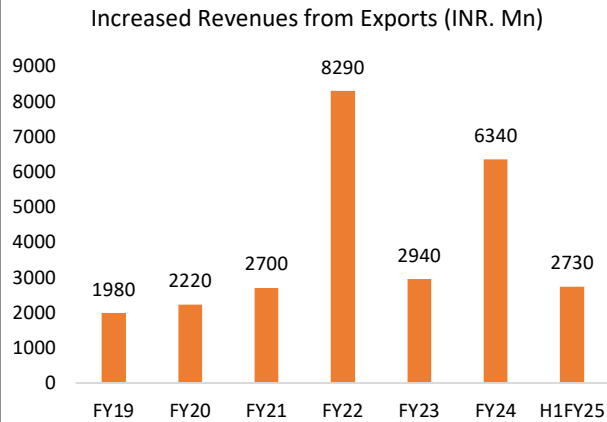


Exhibit 4: Volume recover expected in FY25

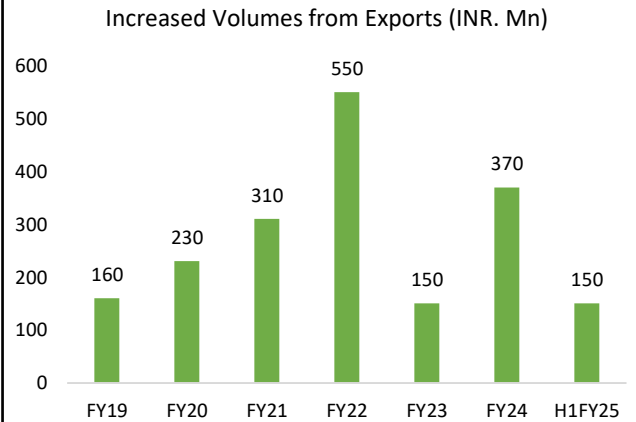


Exhibit 5: Revenue decline due Macro uncertainty and seeing better visibility in H2FY25

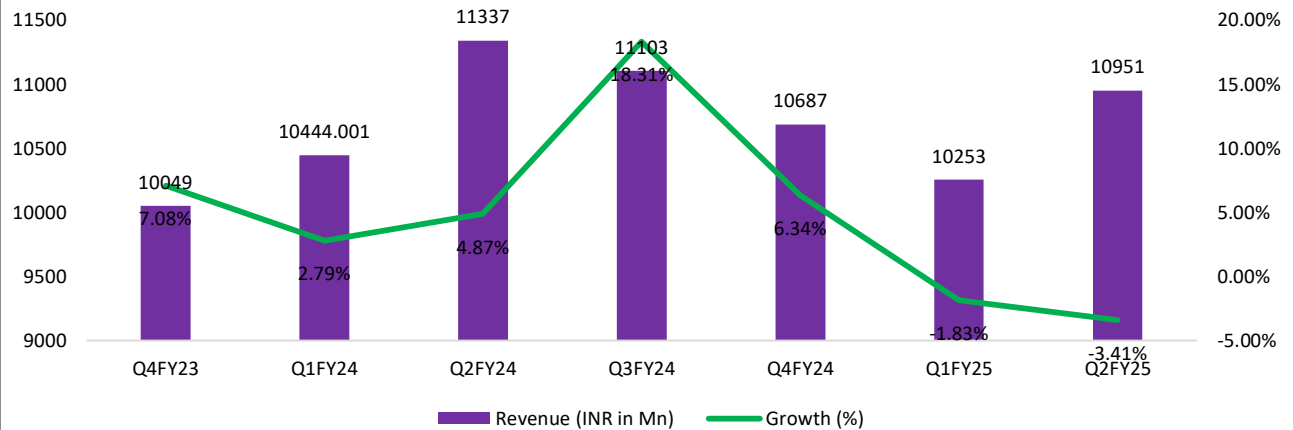
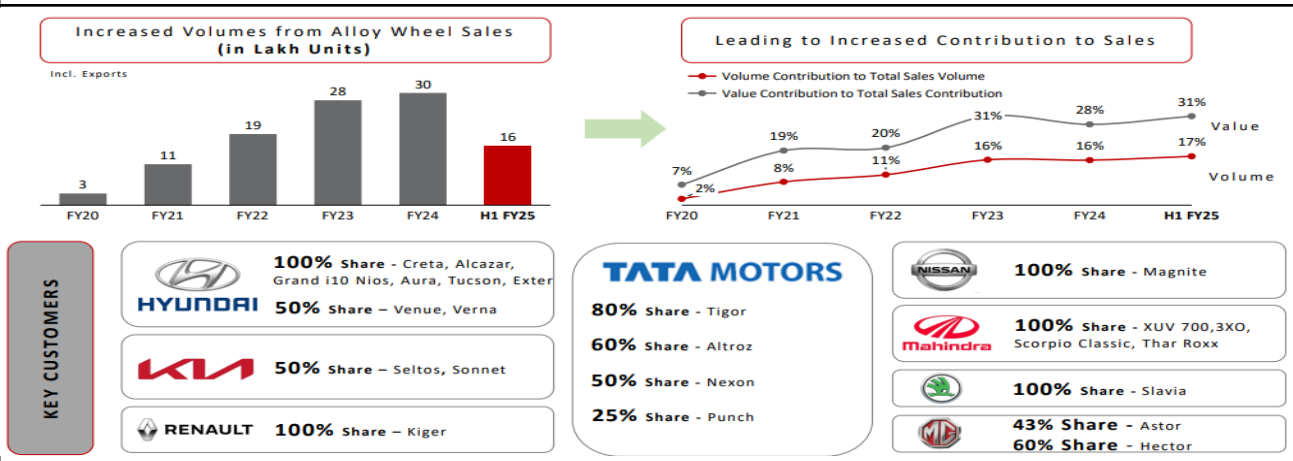


Exhibit 6: Shift of Sales Mix to High Margin Alloy Wheels Segment



Source: Company, Arihant Research

Income Statement (INR Mn) (Consolidated)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenues	43,571	44,029	50,048	52,644
Change (%)	7.8%	1.1%	13.7%	5.2%
Employee costs	3,580	4,051	4,554	4,475
Operation and other expenses	6,990	7,212	8,383	8,844
Total Operating Expenses	10,570	11,263	12,937	13,319
Depreciation	1,042	1,109	1,387	1,387
EBITDA	4640	4788	5628	6020
EBITDA Margin (%)	10.65%	10.9%	11.2%	11.4%
EBIT	3598	3679	4241	4633
EBIT Margin (%)	8.3%	8.4%	8.5%	8.8%
Interest	1,027	1,210	1,258	1,327
Other Income	137	138	157	165
PBT	7,439	2,607	3,140	3,471
Exceptional Items	4,731	-	-	-
PBT after exceptional Items	7,439	2,607	3,140	3,471
Tax	687	652	785	868
Rate (%)	9.2%	25.0%	25.0%	25.0%
PAT	6,747	1,955	2,355	2,603
Non-controlling interest	-	-	-	-
Consolidated PAT	6,747	1,955	2,355	2,603
PAT Margin (%)	15.5%	4.4%	4.7%	4.9%

Balance Sheet (INR Mn) (Consolidated)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	157	157	157	157
Reserves & Surplus	14,265	19,580	21,778	24,224
Total Equity	14,422	19,736	21,934	24,381
Total assets	33,036	37,849	40,527	43,153
Application of Funds				
Gross Block	25,454	27,704	27,704	27,704
Less: Depreciation	1,042	1,109	1,387	1,387
Net Block	16,259	17,401	16,016	14,630
CWIP	3,626	3,626	3,626	3,626
Financial Assets	122	122	122	122
Investments	37	37	37	37
Inventories	6,970	6,861	7,762	8,152
Sundry debtors	4,397	4,158	4,727	4,972
Cash and bank	429	4,408	6,937	10,247
Other Current Assets	177	176	200	211
Total Current assets	12,020	15,650	19,673	23,627
Total Current liabilities	3,814	3,414	3,014	2,814
Net Current assets	21,017	22,199	20,854	19,525
Capital Employed	33,036	37,849	40,527	43,153

Cash Flow Statement (INR Mn) (Consolidated)				
Year End-March	FY24	FY25E	FY26E	FY27E
Add:- Depreciation	7,434	2,607	3,140	3,471
Depreciation	1,042	1,109	1,387	1,387
Finance Costs	1,027	1,210	1,258	1,327
Operating Profit before WC Changes	9,503	4,926	5,785	6,185
Operating Profit after WC Changes	(2,158)	213	(665)	(318)
Direct Taxes Paid & Exceptional Items	620	652	785	868
Cash Flow from Operating Activities	7,966	5,791	5,904	6,735
Cash Flow from Investing Activities	(3,650)	(2,071)	179	179
Cash Flow from Financing Activities	1,710	1,563	(1,984)	(1,869)
Net Change in Cash & Cash Equivalents	(11)	3,979	2,530	3,309
Opening Cash & Cash Equivalents	440	429	4,408	6,937
Closing Cash & Cash Equivalents	429	4408	6937	10247

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	43.1	12.5	15.0	16.6
BVPS	92	126	140	156
Valuation (x)				
P/E	4.8	16.4	13.6	12.3
P/BV	2.2	1.6	1.5	1.3
EV/EBITDA	7.7	6.5	5.0	4.1
Return ratio (%)				
EBITDA Margin	10.6%	10.9%	11.2%	11.4%
EBIT Margin	8.3%	8.4%	8.5%	8.8%
PAT Margin	15.5%	4.4%	4.7%	4.9%
ROE	46.8%	9.9%	10.7%	10.7%
ROCE	19.7%	15.9%	17.0%	17.0%
Depreciation/Gross Block	4.1%	4.0%	5.0%	5.0%
Net sales / Gr block (x)	1.71	1.59	1.81	1.90
Leverage Ratio (%)				
Total D/E	0.28	0.18	0.15	0.12
Turnover Ratios				
Asset Turnover (x)	3.4	2.8	2.2	2.1
Inventory Days	92.1	90.0	90.0	90.0
Receivable Days	54.2	49.0	49.0	49.0

Source: Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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