

**Strong demand from alloy wheels & export recovery on the cards**

**CMP: INR 197**

**Rating: Buy**

**Target Price: 259**

**Stock Info**

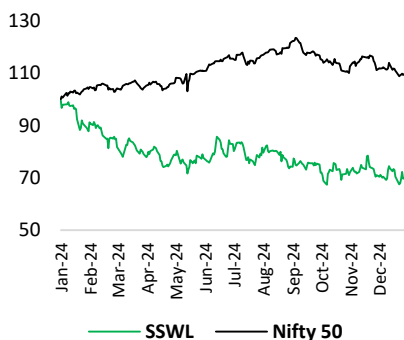
BSE	513262
NSE	SSWL
Bloomberg	SSW IN
Sector	Auto Ancillaries-wheels
Face Value (INR)	1
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	31,060
52w H/L (INR)	289/189
Avg Yearly Vol (in 000')	314.70

**Shareholding Pattern %**

(As on June, 2024)

Promoters	60.9
Public & Others	39.1

Stock Performance (%)	1m	3m	12m
SSWL	-1.5	-7.8	-27.3
Nifty	-1.03	-6.0	8.22



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Steel Strips Wheels Ltd, reported Revenue missed expectation while margin remains flat-SSWL Ltd reported its Q3FY25 numbers, with revenue at INR 10,747 Mn (down by 3.21% YoY and 1.86% QoQ), below our estimate of INR 11,631 Mn. EBITDA stood at INR 1,179 Mn (down by 1.17% YoY and up by 1.03% QoQ), in line with our estimate of INR 1,175 Mn. EBITDA margin remains flat at 10.97%, above our estimate of 10.1%. PAT stood at INR 477 Mn (down by 19.69% YoY and up by 3.48% QoQ), above our estimate of INR 435 Mn. PAT margin expanded by 23 bps QoQ to 4.43% in Q3FY25, compared to 4.20% in Q2FY25.

**Investment Rationale**

**Capacity Expansion in steel wheel segment:** The steel wheels segment remained stable with consistent output throughout 9M FY25. The company is moving forward with its capacity expansion plans, particularly at the Jamshedpur plant. The expansion will contribute 100 bps to the company's growth by March FY25. Of the expansion, 25% will involve new equipment, while 75% will be refurbished. The plant is expected to produce 70-100k units per month, with 90% allocated to these facilities, resulting in a 100 bps increase in margins.

**Strong demand in Knuckle casting business:** The knuckle casting business began in November, with 60% of demand expected to ramp up. Monthly demand is estimated at 17-18k units, with a full-year run rate of 25-27k units. The expected revenue for the next year is INR 180 Mn. The margin profile suggests 65-75% utilization, indicating strong growth potential. Revenue from November to March is expected to range between INR 140-150 Mn, with INR 180 Mn anticipated in FY26-27. The projected revenue for that period is between INR 1050-1150 Mn. Every car typically uses 2-4 knuckles.

**Debt repayment on card:** Total debt stands at INR 9620 Mn, with INR 4060 Mn in long-term debt and the rest in short-term liabilities as of Q3FY25. Annual debt repayments are projected at INR 1000-1100 Mn, with potential prepayment options being considered. The company is planning a capex of INR 1500-1600 Mn for FY26 and FY27, to be funded internally without additional debt.

**Outlook and valuation**

SSWL's alloy wheels segment~90% capacity utilization and expansion plans. The steel wheels segment remained stable, while the 2w & 3w industries grew. The CV segment saw declines, but recovery is expected, while the tractor segment showed strong growth. Exports were impacted by supply chain disruptions, with FY25 revenue expected to be between INR 5500-6000 Mn.Q4 is expected to be the strongest quarter in the US transformation, with growth driven by America-based operations, Free Trade Agreements and the shift in purchasing from China to India. The US is a strong export partner. Europe is focusing on alloy and PV perspectives. By the end of the full year, the US will catch up. The aluminum knuckles segment began commercialization, with a full launch planned by FY26. Capex for FY26-27 is projected at INR 1500-1600 Mn, funded internally. 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 197, SSWL is trading at a EV/EBITDA of 4.4x to its FY27E EBITDA of INR 6,020 Mn. We value the stock on a P/E (x) multiple of 15x to its FY27E EPS INR 17.3 which yields a target price of INR 259 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%
Adj. PAT	6,747	2,009	2,416	2,707
ROE*	13.98%	10.15%	10.96%	11.01%
EPS	43.1	12.8	15.4	17.3
P/E	4.6	15.3	12.8	11.4

\*In FY24 adjusted one time exceptional item

Source: Company, Arihant Research

## Exhibit 2: Quarterly Performance

Consolidated (INR Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY
Revenue from operations	10747	10951	11103	-1.9%	-3.2%
Cost of materials consumed	7172	7049	7415	1.7%	-3.3%
Change in inventory	-332	-129	-255	157.7%	30.2%
Cost of Goods Sold (COGS)	6840	6921	7160	-1.2%	-4.5%
Gross Profit	3907	4030	3943	-3.1%	-0.9%
Employee benefits expense	969	948	899	2.2%	7.8%
Other expenses	1759	1889	1877	-6.9%	-6.3%
Total operating Expenses	9568	9758	9936	-1.9%	-3.7%
EBITDA	1179	1193	1167	-1.2%	1.0%
EBITDA Margin (%)	10.97%	10.89%	10.51%	7bps	46bps
Depreciation and amortisation expenses	275	275	225	-0.3%	22.0%
EBIT	904	917	942	-1.5%	-4.0%
EBIT Margin (%)	8.41%	8.38%	8.48%	3bps	-7bps
Finance costs	262	304	251	-13.6%	4.6%
Other income	4	5	17	-24.9%	-78.2%
PBT	645	618	708	4.3%	-8.9%
Share of profit/loss from associates	(1.73)	0.89	(1.22)		
Exceptional items	-	-			
PBT	643	619	707	3.9%	-8.9%
Tax Expense	166	158	113	5.2%	47.8%
Tax Rate	25.9%	25.5%	15.9%	-	-
PAT	477.1	461.1	594	3.5%	-19.7%
EPS	2.79	2.94	3.79	-5.1%	-26.4%

Source: Company, Arianth Research

**Steel Strips Wheels Ltd- Q3FY25 Concall KTAs**

SSWL's alloy wheels segment showed strong performance with ~90% capacity utilization and plans for expansion. The steel wheels segment was stable, while the two- and three-wheeler industries grew. The CV segment saw declines but recovery is expected, and the tractor segment experienced strong growth. Exports were impacted by supply chain issues, with FY25 revenue expected between INR 5500-6000 Mn. The aluminum knuckles segment started commercialization, aiming for a full launch by FY26. Geopolitical tensions and lower CV demand are challenges. Capex for FY26-27 is projected at INR 1500-1600 Mn, funded internally. Debt is INR 9620 Mn, with annual repayments of INR 1000-1100 Mn. SSWL faces competition from Maxion in alloy wheels but offers strong engineering and competitive export pricing.

SSWL anticipates aligning with industry trends to continue its growth, particularly in the tractor and aluminum knuckles segments. The tractor segment is expected to sustain its growth momentum, with potential for further market share expansion. The aluminum knuckles segment is poised for robust growth, with full capacity expected to be sold out through Q4FY25 and additional investments planned to ramp up to 2 Mn units.

**Alloy Wheels:** The capacity utilization ~90% in Q3FY25. SSWL plans to expand its capacity to 4.8 Mn units by FY26, anticipating a 35-40% growth in volumes for the next financial year. Expansion efforts are also focused on boosting performance in the European and US markets.

**Steel Wheels:** The steel wheels segment remained stable, with consistent output throughout 9MFY25. The company is continuing with its capacity expansion plans, particularly at its Jamshedpur plant. The Jamesadpur plant will undergo capacity expansion, contributing 100 bps towards the company's growth by March FY25. Of this, 25% will be new equipment, and 75% will be refurbished. The plant will produce 70-100k units per month, with 90% allocated to these facilities, resulting in a margin increase of 100 bps.

**2w&3w Industry:** Positive growth was observed in both volume and value in the two and three-wheeler industry during 9MFY25. The segment is expected to maintain this growth trend in the coming quarter.

**CV:** The CV segment saw a decline in Q3FY25 due to weaker demand. However, a recovery is expected, driven by government infrastructure and mining projects in the future.

**Tractors:** SSWL experienced a strong performance in the tractor segment, with significant sales growth both domestically and in export markets during 9MFY25.

**Export:** Exports showed a gradual recovery starting in December, although Q3FY25 was affected by supply chain disruptions and geopolitical instability, especially in the EU and US markets. The full-year export revenue for FY25 is expected to fall between INR 5500-6000 Mn, with Q4 expected to see the peak in export sales.

**Aluminum Knuckles:** The aluminum knuckles segment began commercialization in Q3FY25 with an initial capacity of 2.5 lakh units annually. This is expected to ramp up to 5 lakh units in Q4FY25, with plans for a full launch by FY26 and expansion of the customer base. Every car uses 2-4 knuckles

Geopolitical tensions, especially concerning China and the US, are creating uncertainties in the export market and affecting visibility for future orders.

Lower demand in the CV segment continues to impact current performance levels, though a recovery is expected in the long term.

Ongoing monitoring and mitigation strategies will be crucial to addressing potential supply chain disruptions.

**Capex:** The company is planning capex of INR 1500-1600 Mn for FY26 and FY27, to be funded internally without additional debt.

**Debt Position:** As of Q3FY25, SSWL's total debt stands at INR 9620 Mn, with INR 4060 Mn in long-term debt and the rest in short-term liabilities. Annual debt repayments are projected at INR 1000-1100 Mn, with potential prepayment options being considered.

**EBITDA per Wheel:** Consistent at INR 262 per wheel in recent quarters, with expectations of INR 260 becoming the new baseline as the company continues to explore growth opportunities.

**Domestic Sales:** Currently focused on OEMs with no direct sales in the aftermarket segment.

**Competitive Landscape:** SSWL faces competition primarily from Maxion in the alloy wheels sector, where it differentiates itself through superior engineering capabilities and competitive pricing for export markets.

**Knuckle Casting:** The knuckle casting business is starting in November, with 60% of demand expected to ramp up. Monthly demand is estimated to reach 17-18k units, with a full-year run rate of 25-27k. The expectation for next year is a revenue of 18 crore INR. The margin profile indicates 65-75% utilization, which gives a fair idea of growth. Revenue from November to March is expected to be between INR 140-150 Mn with INR 180 Mn INR anticipated in FY26-27. The projected numbers for that period are INR 1050-1150 Mn.

Story in charts (INR in Mn)

Exhibit 3: Export recovery on cards

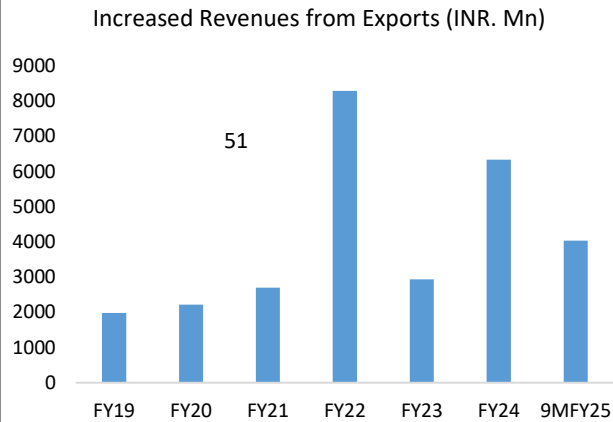


Exhibit 4: Volume recover expected in CY25

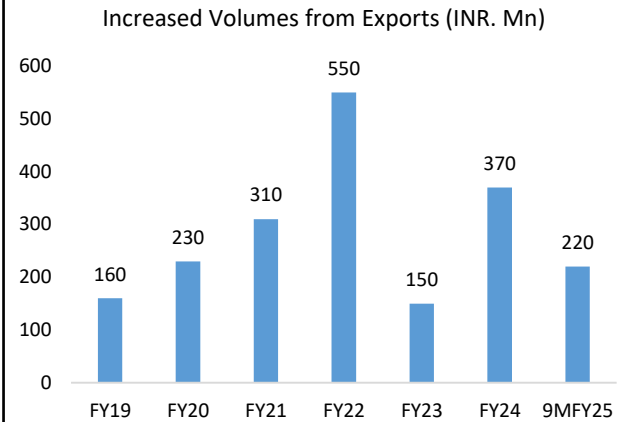


Exhibit 5: Revenue decline due Macro uncertainty and seeing better visibility in Q4FY25

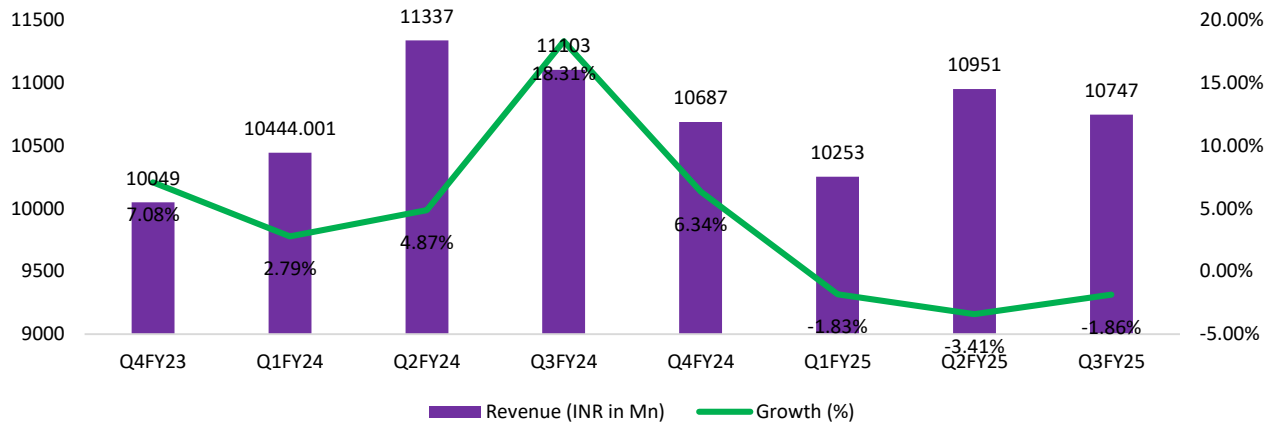
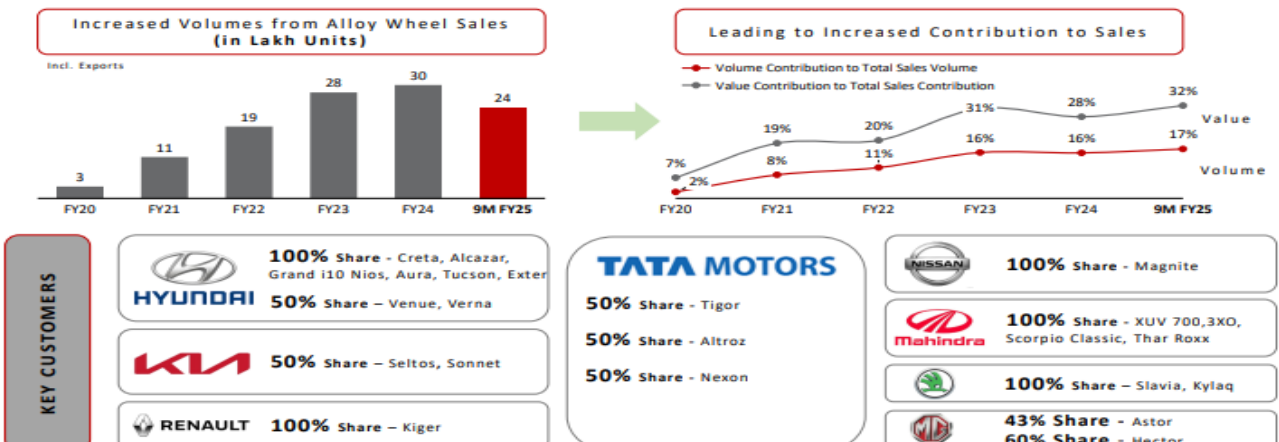


Exhibit 6: Shift of Sales Mix to High Margin Alloy Wheels Segment



Source: Company, Arihant Research

Income Statement (INR Mn) (Consolidated)				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>43,571</b>	<b>44,029</b>	<b>50,048</b>	<b>52,644</b>
Change (%)	7.8%	1.1%	13.7%	5.2%
Employee costs	3,580	4,051	4,554	4,475
<b>Operation and other expenses</b>	<b>6,990</b>	<b>7,212</b>	<b>8,383</b>	<b>8,844</b>
Total Operating Expenses	10,570	11,263	12,937	13,319
Depreciation	1,042	1,109	1,462	1,542
<b>EBITDA</b>	<b>4640</b>	<b>4788</b>	<b>5628</b>	<b>6020</b>
<b>EBITDA Margin (%)</b>	<b>10.65%</b>	<b>10.9%</b>	<b>11.2%</b>	<b>11.4%</b>
EBIT	3598	3679	4166	4478
EBIT Margin (%)	8.3%	8.4%	8.3%	8.5%
Interest	1,027	1,138	1,102	1,033
Other Income	137	138	157	165
<b>PBT</b>	<b>7,439</b>	<b>2,679</b>	<b>3,221</b>	<b>3,610</b>
Exceptional Items	4,731	-	-	-
<b>PBT after exceptional Items</b>	<b>7,439</b>	<b>2,679</b>	<b>3,221</b>	<b>3,610</b>
Tax	687	670	805	902
Rate (%)	9.2%	25.0%	25.0%	25.0%
<b>PAT</b>	<b>6,747</b>	<b>2,009</b>	<b>2,416</b>	<b>2,707</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Consolidated PAT</b>	<b>6,747</b>	<b>2,009</b>	<b>2,416</b>	<b>2,707</b>
<b>PAT Margin (%)</b>	<b>15.5%</b>	<b>4.6%</b>	<b>4.8%</b>	<b>5.1%</b>

Balance Sheet (INR Mn) (Consolidated)				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>				
Share Capital	157	157	157	157
Reserves & Surplus	14,265	19,634	21,893	24,443
Total Equity	14,422	19,790	22,049	24,600
<b>Total assets</b>	<b>33,036</b>	<b>37,303</b>	<b>39,442</b>	<b>41,272</b>
<b>Application of Funds</b>				
Gross Block	25,454	27,704	29,204	30,804
Less: Depreciation	1,042	1,109	1,462	1,542
Net Block	16,259	17,401	17,441	17,500
CWIP	3,626	3,626	3,626	3,626
Financial Assets	122	122	122	122
Investments	37	37	37	37
<b>Inventories</b>	<b>6,970</b>	<b>6,861</b>	<b>7,762</b>	<b>8,152</b>
<b>Sundry debtors</b>	<b>4,397</b>	<b>4,158</b>	<b>4,727</b>	<b>4,972</b>
Cash and bank	429	3,862	4,427	5,496
Other Current Assets	177	176	200	211
Total Current assets	12,020	15,104	17,163	18,876
Total Current liabilities	3,814	2,814	1,814	714
Net Current assets	<b>21,017</b>	<b>22,199</b>	<b>22,279</b>	<b>22,395</b>
<b>Capital Employed</b>	<b>33,036</b>	<b>37,303</b>	<b>39,442</b>	<b>41,272</b>

Cash Flow Statement (INR Mn) (Consolidated)				
Year End-March	FY24	FY25E	FY26E	FY27E
Add:- Depreciation	7,434	2,679	3,221	3,610
Depreciation	1,042	1,109	1,462	1,542
Finance Costs	1,027	1,138	1,102	1,033
<b>Operating Profit before WC Changes</b>	<b>9,503</b>	<b>4,926</b>	<b>5,785</b>	<b>6,185</b>
Operating Profit after WC Changes	-2,158	213	-665	-318
Direct Taxes Paid & Exceptional Items	620	670	805	902
<b>Cash Flow from Operating Activities</b>	<b>7,966</b>	<b>5,809</b>	<b>5,925</b>	<b>6,770</b>
<b>Cash Flow from Investing Activities</b>	<b>-3,650</b>	<b>-2,071</b>	<b>-1,321</b>	<b>-1,421</b>
<b>Cash Flow from Financing Activities</b>	<b>1,710</b>	<b>1,035</b>	<b>-2,428</b>	<b>-2,475</b>
Net Change in Cash & Cash Equivalents	-11	3,433	565	1,069
Opening Cash & Cash Equivalents	440	429	3,862	4,427
Closing Cash & Cash Equivalents	429	3862	4427	5496

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Per share (INR)</b>				
EPS	43.1	12.8	15.4	17.3
BVPS	92	126	141	157
<b>Valuation (x)</b>				
P/E	4.6	15.3	12.8	11.4
P/BV	2.1	1.6	1.4	1.3
EV/EBITDA	7.4	6.3	5.1	4.4
<b>Return ratio (%)</b>				
EBITDA Margin	10.6%	10.9%	11.2%	11.4%
EBIT Margin	8.3%	8.4%	8.3%	8.5%
PAT Margin	15.5%	4.6%	4.8%	5.1%
ROE	13.9%	10.2%	11.0%	11.0%
ROCE	19.7%	16.3%	17.5%	17.7%
Depreciation/Gross Block	4.1%	4.0%	5.0%	5.0%
Net sales / Gr block (x)	1.71	1.59	1.71	1.71
<b>Leverage Ratio (%)</b>				
Total D/E	0.28	0.15	0.09	0.04
<b>Turnover Ratios</b>				
Asset Turnover (x)	3.4	2.9	2.6	2.7
Inventory Days	92.1	90.0	90.0	90.0
Receivable Days	54.2	49.0	49.0	49.0

\*In FY24 adjusted one time exceptional item

Source: Arihant 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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