



Product Diversification and Robust Exports to Drive Growth

Est. Vs. Actual for Q2FY24: Revenue **-INLINE** ; EBITDA **-INLINE**; PAT **-MISS**

Change in Estimates post Q2FY24

FY24E/FY25E: Revenue: 0%/0%; EBITDA: 0%/-3%; PAT: -8%/-8%.

Recommendation Rationale

- **Robust Export Opportunities:** The company currently supplies wheels to the USA and EU among others via wholesalers such as Road Ready, Alcar Wheels, Tredit, and OE Wheels in the aftermarket. Exports revenue guidance currently stands at ~Rs 500-600 Cr in FY24, significantly up from the impacted base of ~Rs 292 Cr in FY23 (vs. the erstwhile base of ~Rs 829 Cr in FY22). Exports volume in H1FY24 at 21 Lc units (including 1.12 Lc alloy wheel units) has already surpassed full-year volumes of FY23 significantly by 40%, indicating the desired pick-up in the export market. Total export sales in H1FY24 stood at ~Rs 331 Cr, including ~Rs 39 Cr from the alloy wheels segment. SSWL expects additional demand from International OEMs in FY25E, to further aid company's export growth by upto ~15% YoY.
- **Incremental Capex for Steel and Alloy Wheel Capacity:** The AMW plant will aid in steel wheels capacity expansion to 27.5 Mn wheels by FY24 (from 20.5 Mn in FY23) and debottlenecking will raise the alloy wheel capacity to 4.8 Mn wheels in FY24 (from 3 Mn in FY23). The total Capex for FY24 is ~Rs 320 Cr. (plus ~Rs 138 Cr required for the AMW plant).
- **EV Business:** The company shared that supplies to 2W EV OEMs has started from Chennai and Dappur plants; having gained ~50% market share in the Rear Wheel (Hub Motor attached) segment. The motor controller talks with Israel's Reddler Technologies have been delayed due to ongoing geopolitical conflicts.

Company Outlook & Guidance: The company maintained its earlier guidance for volume sales growth at 12-15%YoY in FY24 and revenue at ~Rs 4,800-5,000 Cr (vs. ~Rs 3,560/4,040 Cr in FY22/23) on similar commodity price levels. This will be mainly led by increased alloy wheels sales, a pick-up in exports, and a longish CV upcycle. Furthermore, the introduction of a new product, namely Aluminium Knuckles in 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'25 EPS (roll forward from Sep'25 EPS).

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) and improvement in EBITDA/wheel in FY25.

Financial Performance

Steel Strips Wheels Ltd. (SSWL) reported Revenue and EBITDA in line with our estimates while PAT was a miss. Revenue stood at Rs 1,134 Cr (up 5%/9% YoY/QoQ), which 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 124 Cr (up 6%/10% YoY/QoQ) and EBITDA Margins of 11% (up 20bps both YoY/QoQ). This was led by lower personnel costs and other expenses (as a % of sales) which was only partly offset by lower gross margins. The company's PAT stood at Rs 52.4 Cr (down 4% YoY but up 8% QoQ). This was an 8% miss from our estimates and was largely on account of an increase in interest costs to the tune of 26%/10% on a YoY/QoQ basis (23% above our estimates). Higher interest costs were on account of fresh borrowing in light of the preponement of the expansion timeline of alloy wheel capacity and a higher effective tax rate of 34% vs. our assumption of 31%.

Outlook

We factor in total wheel volumes at 19.5 Mn and 20.5 Mn units in FY24/25 respectively. With alloy wheels and exports 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 a focus on fulfilling export demand from the US and Europe, ramping up of Alloy wheels and AL knucklers division and the expansion of EV wheels business, we value the stock at 17x PE multiple on Dec'25 EPS (roll forward from Sep'25 EPS). Against this backdrop, **we maintain our BUY rating on the stock** with a TP of Rs 325/share (unchanged), implying an upside potential of 24% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,134	9%	5%	1,146	-1%
EBITDA	124	10%	6%	125	-1%
EBITDA Margin	11.0%	16	14	10.9%	3
Net Profit	52.4	10%	-4%	57.1	-8%
EPS (Rs)	3.3	10%	-4.4%	3.6	-8.5%

Source: Company, Axis Securities

(CMP as of 30th Oct 2023)

CMP (Rs)	261
Upside /Downside (%)	24%
High/Low (Rs)	299/126
Market cap (Cr)	4,090
Avg. daily vol. (6m)Shrs. ('000)	186
No. of shares (Cr)	15.65

Shareholding (%)

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

Financial & Valuation

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	4,360	4,814	5,400
EBITDA	463	531	608
Net Profit	202	254	309
EPS (Rs.)	12.9	16.2	19.7
PER (x)	20.2	16.1	13.3
EV/EBITDA (x)	9.6	8.2	7.1
P/BV	3.1	2.6	2.2
RoE (%)	16.3	17.6	18.0

Change in Estimates (%)

Y/E Mar	FY24	FY25E	FY26E
Sales	0%	0%	-
EBITDA	0%	-3%	-
PAT	-8%	-8%	-

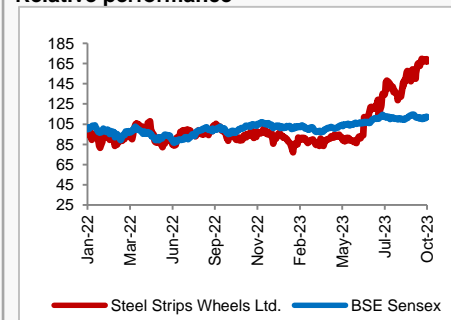
ESG disclosure Score**

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.

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Key Concall Highlights

- **Q2FY24 operational performance:** Overall blended sales volume (steel + alloy) stood at 5.1 Mn units, up 8% YoY and revenues were up ~5% YoY. Exports revenue grew by 109% YoY to Rs 177 Cr during the quarter.
- **Employee cost:** In Q2FY24, the employee expenses were higher 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 previous quarter, 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 to slowly begin production in H2FY25 mainly towards meeting export demand for CV (initial production to range from 20k – 25k units pm).
- **Debt:** The company plans to raise debt of Rs 100 Cr to fulfil the acquisition of the AMW plant. It is confident of pre-paying significant amount in the next 2-3 years with cash accruals through business operations. The NCLT Order was received on 12th Oct'23 and the resolution plan is to be implemented within 90 days of the order date.
- **Supply of Alloy wheels is expected to begin in Q4FY24 to Maruti:** Technical feasibility has been completed and discussion on commercial feasibility is ongoing.

Key Risks to our Estimates and TP

1. Export Recovery 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	4,360	4,814	5,400	4,360	4,814	-	0%	0%	-
EBITDA	463	531	608	464	546	-	0%	-3%	-
PAT	202	254	309	220	275	-	-8%	-8%	-

Source: Company, Axis Securities

Q2FY24 Results Review

(Rs Cr)	Q2FY24	Axis Sec Estimates	Axis Sec Var (%)	Q1FY24	QoQ growth (%)	Q2FY23	YoY growth (%)
Sales	1,134	1,146	-1%	1,044	9%	1,081	5%
Other Op. Inc	0.0	0.0		0.0		0.0	
Total Revenue	1,134	1,146	-1%	1,044	9%	1,081	5%
Net Raw Material	747	745	0%	675	11%	735	2%
Employee expenses	90	92	-3%	88	1%	66	36%
Other Exp	172	183	-6%	168	2%	162	6%
Total Expenditure	1009	1021	-1%	931	8%	964	5%
EBIDTA	124	125	-1%	113	10%	117	6%
EBITDA Margins (%)	11.0%	10.9%	3	10.8%	16	10.8%	14
Other Income	3.0	2.2	35%	4.2	-30%	3.6	-19%
Interest	26.0	21.2	23%	23.6	10%	20.6	26%
Depreciation	22.5	23.8	-5%	22.4	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	79	83	-5%	71	11%	80	-1%
Tax	26.5	25.6	3%	23.6	12%	25.4	4%
Tax Rate (%)	34%	31%		33%		32%	
PAT	52.4	57.1	-8%	47.6	10%	54.6	-4%
Adj EPS (Rs.)	3.34	3.65	-8%	3.0	10%	3.5	-4.4%
Ratios	Q2FY24	Axis Sec Estimates	Change in Bps	Q1FY24	Change in Bps(QoQ)	Q2FY23	Change in Bps(YoY)
GM%	34.1%	35.0%	-91	35.4%	-130	32.0%	212
NP%	4.6%	5.0%	-36	4.6%	7	5.1%	-43
personnel Cost % to Sales	7.9%	8.1%	-15	8.5%	-55	6.1%	179
Other Expenses % to Sales	15.2%	16.0%	-79	16.1%	-90	15.0%	19

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

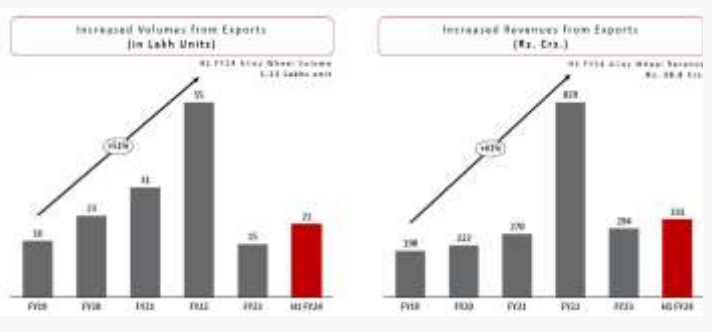
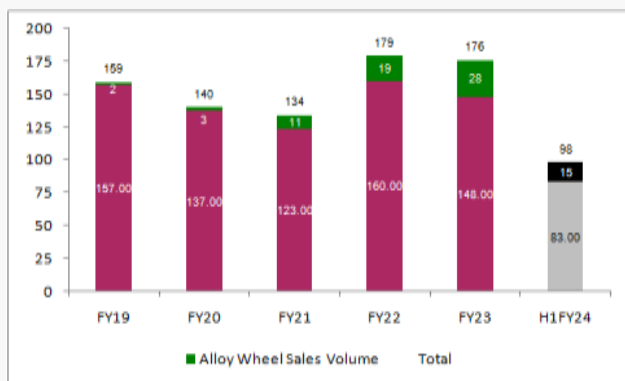


Exhibit 3: Volumes: Steel & Alloy Wheels (in Lcs)



Source: Company

Exhibit 4: Contribution to Sales (in %)

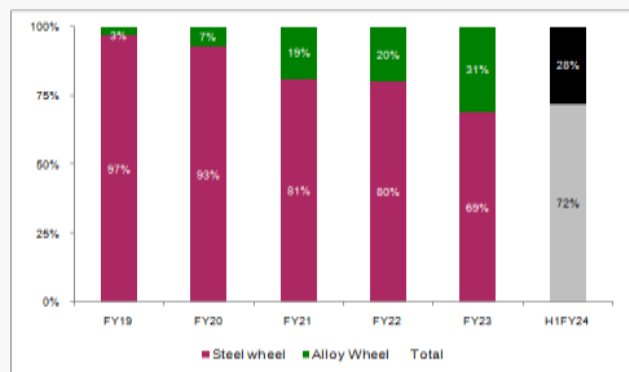
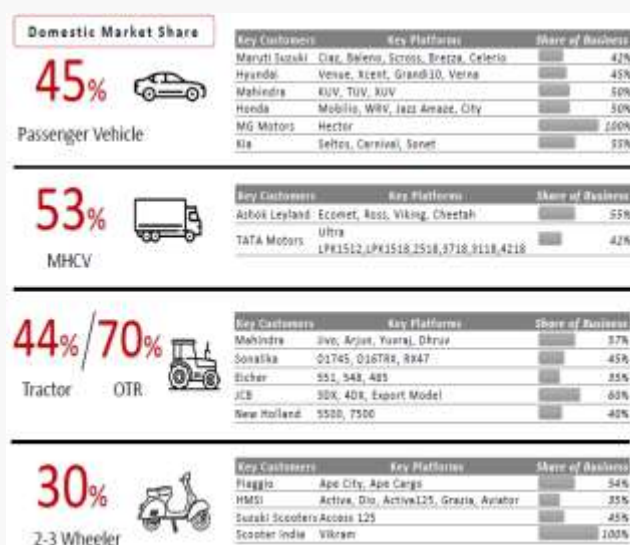


Exhibit 5: Domestic Market Share



Source: Company

Exhibit 6: Exports Revenue

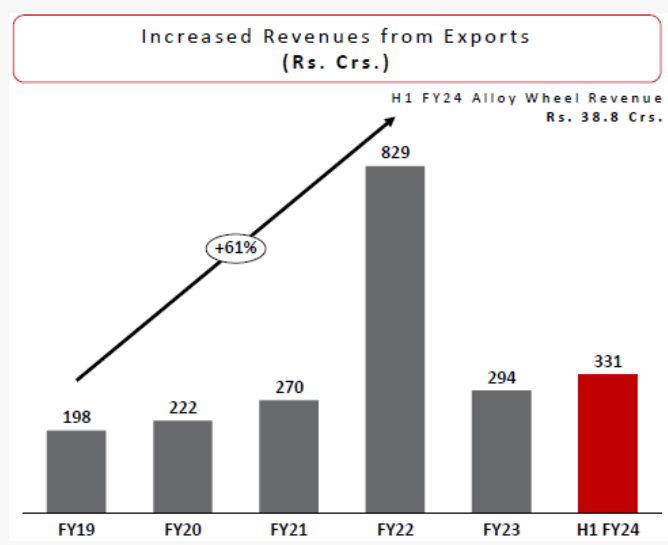
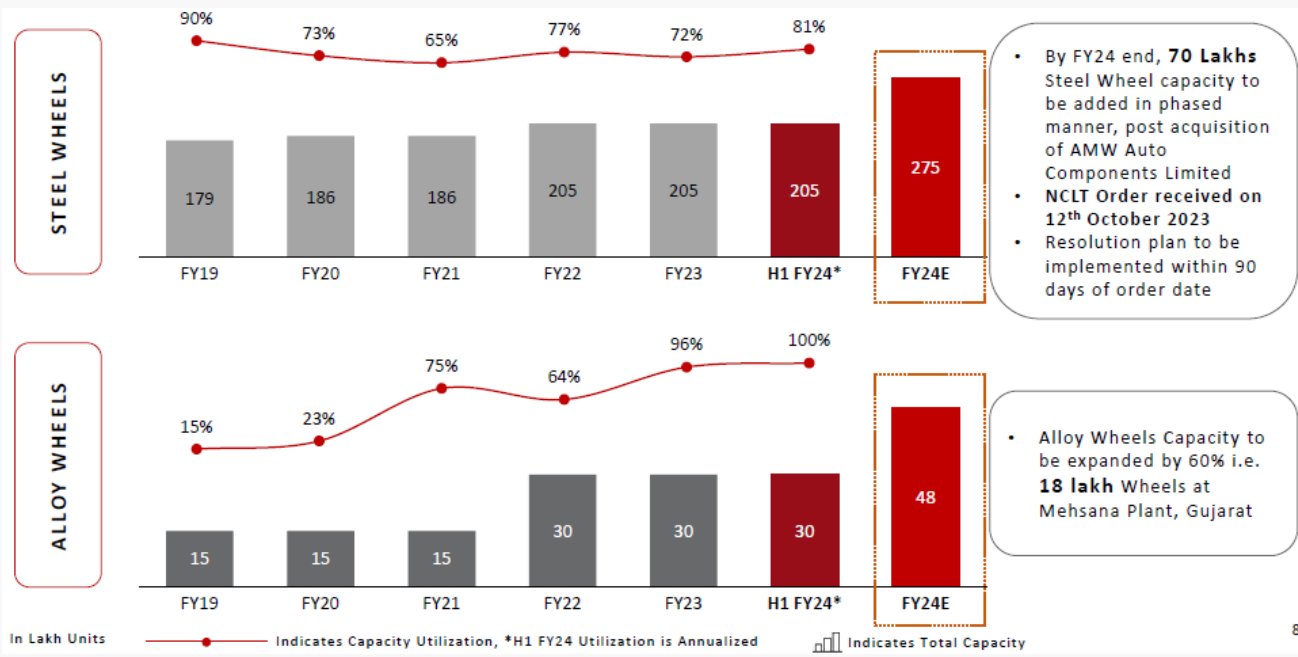


Exhibit 7: Product Capacities & Utilization


Source: Company

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	4,041	4,360	4,814	5,400
Other operating income	0	0	0	0
Total income	4,041	4,360	4,814	5,400
Cost of goods sold	3,403	3,692	4,052	4,532
Contribution (%)	15.8%	15.3%	15.8%	16.1%
Advt/Sales/Distrn O/H	195.1	205.7	231.1	259.2
Operating Profit	443	463	531	608
Other income	12	12	2	9
PBIDT	455	474	534	617
Depreciation	80	88	99	109
Interest & Fin Chg.	84	93	95	95
E/o income / (Expense)	0	0	0	0
Pre-tax profit	291	294	340	413
Tax provision	97	92	86	104
(-) Minority Interests	0	0	0	0
Associates	-0	-0	-0	-0
Reported PAT	194	202	254	309

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total assets	2,043	2,371	2,627	2,895
Net Block	1,349	1,574	1,725	1,816
CWIP	163	150	100	100
Investments	4.1	4.1	4.1	4.1
Wkg. cap. (excl cash)	483	631	727	877
Cash / Bank balance	44	12	71	97
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	2,043	2,371	2,627	2,895
Equity capital	16	16	16	16
Reserves	1,119	1,305	1,544	1,837
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	737	877	877	837
DefTax Liabilities	172	173	191	205

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Sources	125	416	355	376
Cash profit	358	383	448	513
(-) Dividends	12	16	16	16
Retained earnings	346	367	432	497
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	3	0	0	0
Borrowings	-146	140	0	-40
Others	-78	-91	-77	-81
Applications	125	416	355	376
Capital expenditure	180.5	300.0	200.0	200.0
Investments	4.0	0.0	0.0	0.0
Net current assets	(47.7)	148.0	95.7	150.4
Change in cash	(11.7)	(31.9)	59.4	25.9

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth	13.5	7.9	10.4	12.2
OPM	11.0	10.6	11.0	11.3
Oper. profit growth	(2.2)	4.5	14.8	14.5
COGS / Net sales	84.2	84.7	84.2	83.9
Overheads/Net sales	4.8	4.7	4.8	4.8
Depreciation / G. block	3.7	3.6	3.6	3.7
Effective interest rate	10.7	11.9	11.2	11.5
NPM	4.8	4.6	5.3	5.7
Net wkg.cap / Net sales	0.10	0.11	0.12	0.13
Net sales / Gr block (x)	1.9	1.8	1.8	1.8
RoCE	24.4	22.5	21.7	22.4
Debt / equity (x)	0.62	0.64	0.54	0.44
Effective tax rate	33.5	31.2	25.2	25.2
RoE	18.5	16.3	17.6	18.0
Payout ratio (Div/NP)	6.1	7.7	6.2	5.1
EPS (Rs.)	12.3	12.9	16.2	19.7
CEPS (Rs.)	17.5	18.5	22.6	26.6
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

About the analyst

1. **Sr Research Analyst: Aditya Welekar** is a PGDBM in Finance with 12 years of experience in Equity Market/Research.
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Sector: Automobiles

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