

Steel Strips Wheels Ltd

Wheels turning faster from steel to alloy to exports

Rating: Buy
Upside/(Downside): 44%
Current Price: 792
Target Price: 1,141
| Shareholding pattern (%)

	Dec-21	Sep-21	Jun-21	Mar-21
Promoter	62.8%	62.8%	62.8%	62.8%
FII	0.1%	0.2%	0.8%	0.7%
DII	0.4%	0.3%	0.4%	0.7%
Public/others	36.7%	36.7%	35.9%	35.8%

Source: BSE
| Market data

Bloomberg:	SSW IN
52-week H/L (Rs):	995/313
Mcap (Rs bn/USD bn):	25/0.3
Shares outstanding (mn):	31.2
Free float:	20.0%
Daily vol. (3M Avg):	39,830
Face Value (Rs):	5
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS institutional research
| Price performance (%) *

	1M	3M	12M	36M
BSE SmallCap	-5%	-7%	28%	84%
SSW	-2%	-8%	111%	78%

** As on 11th Mar 2022; Source: AceEquity, SMIFS research*

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	15,633	(23.4)	1,712	11.0%	234	(71.5)	8	3.4	5.2	50.7	12.3
FY21	17,494	11.9	2,038	11.6%	493	110.0	16	6.8	6.7	15.5	8.1
FY22e	33,580	91.9	4,465	13.3%	1,996	305.2	64	23.6	15.0	12.4	7.3
FY23e	38,392	14.3	5,259	13.7%	2,489	24.7	80	23.6	16.5	9.9	5.8
FY24e	44,287	15.4	6,199	14.0%	3,198	28.5	102	24.2	19.4	7.7	4.4

Source: Company, SMIFS institutional research estimates

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Executive summary and investment rationales



Increasing high margin alloy wheels contribution – big growth trigger

- PV Alloy wheels have better margins in the high teens as compared to low double-digit in steel wheels. The realization of alloy wheels is higher by ~3.8x as compared to steel wheels.
- SSWL started alloy wheels business in FY19 and gained market share from 2.9% in FY19 to 24.3% in FY22e. The company is successfully able to cross sell alloy wheels to its steel wheels PV OEMs. This kind of outperformance should continue. They recently won large orders from Tata Motors and M&M.
- The company already has fast growing large OEMs in its client list viz. Hyundai, Kia, Tata Motors, M&M, Renault & Nissan. Maruti Suzuki is 1st & largest customer of SSWL for steel wheels. We expect Maruti to come on clients board in FY23e for alloy wheels as well.

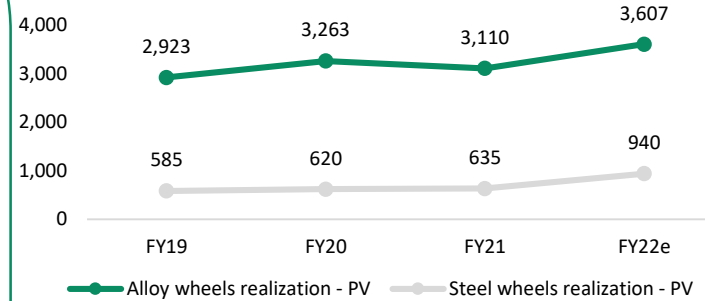
Exports – a big delta - small fish in big pond!

- In exports, SSWL supplies to major OEMs like BMW, Audi, PSA, JLR among others. It has recently cleared major audits from two large global PV OEMs. The company also supplies to the aftermarket in the US and EU.
- We believe exports is a big delta for the next three years due to benefits of China+1 (anti-dumping duty imposed till 2024 on Chinese wheels).
- SSWL is attempting to sign long term contracts with major OEMs and its alloy wheels are also in lab testing phase with a few global PV OEMs.
- The opportunity size in exports is gigantic. Exports volumes since FY19 has been growing in high double-digit & 9MFY22 exports volumes increased by 130% YoY.

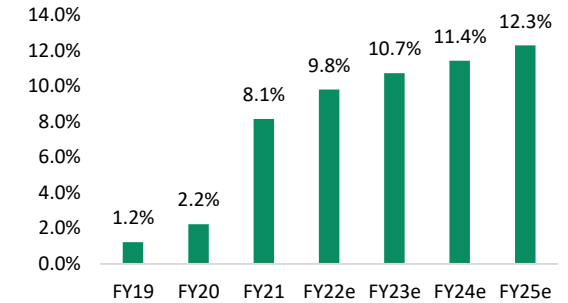
Attractive acquisition - at throw away price

- SSWL is on the final step to acquire AMW Autocomponent Limited from NCLT under Rs 1.5bn for ~10+ mn steel wheels capacity, which will increase SSWL's total capacity by 43% to 33mn.
- The company is getting large capacity at throw away price. 98.5% COC already approved the deal, only NCLT approval is pending, which is expected to come by Q1FY23. Post this, SSWL doesn't have to incur any capex on steel wheels for the next few years.

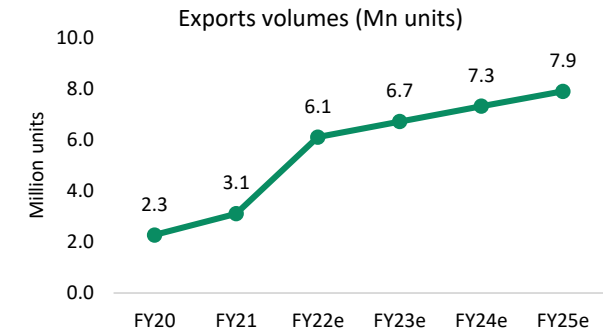
Alloy wheels realization is 3.8x higher than steel wheels, will support in improving margins



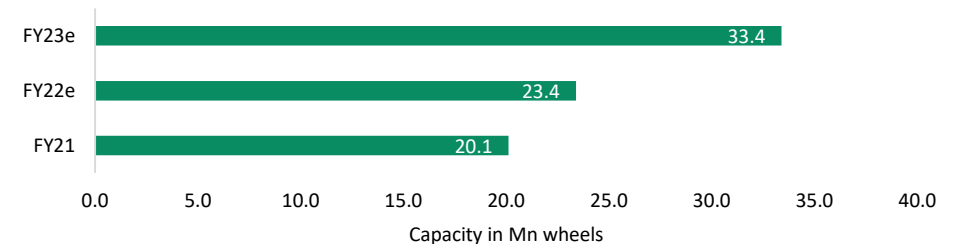
Gradually improving alloy volumes share in total volumes



Calculated wheels market size - OEMs	Mn units
Global PV	350
US PV	75
US CV	7
EU PV	49
EU CV	16



No capex required after AMW's ongoing acquisition



Executive summary and investment rationales



Prime beneficiary of domestic CV revival, entering into high volume LCVs

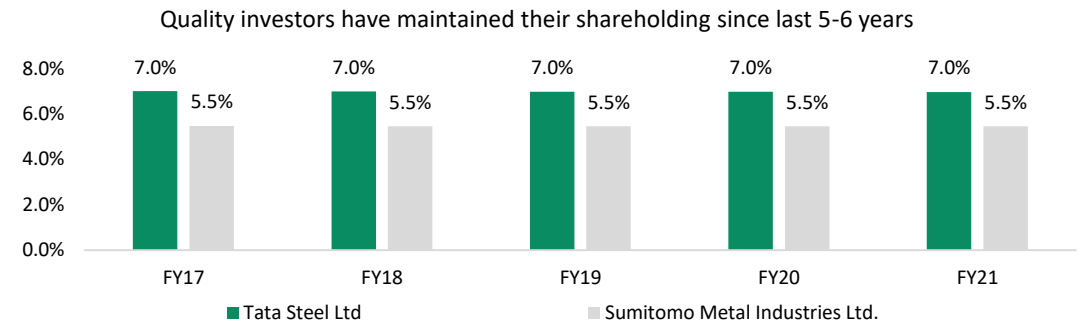
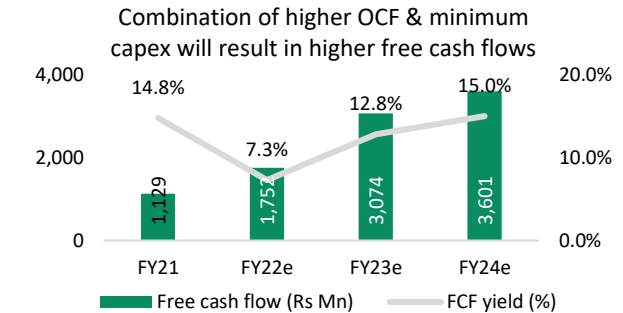
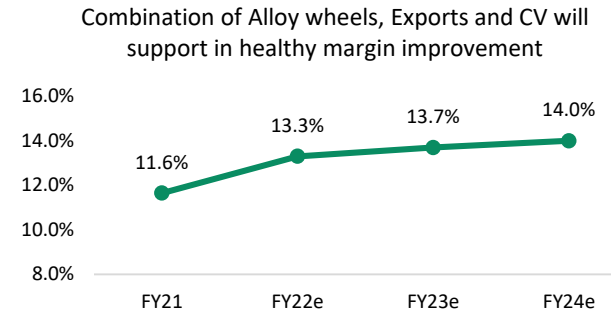
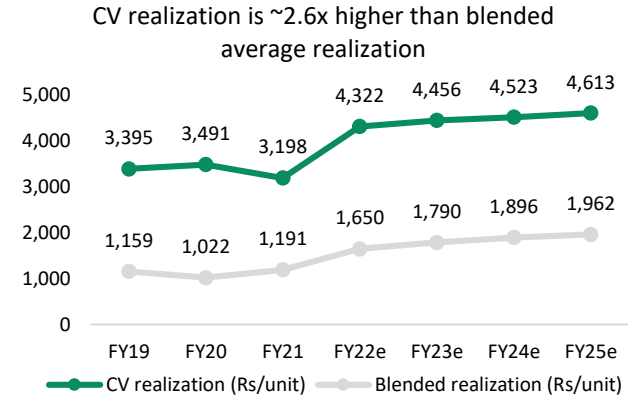
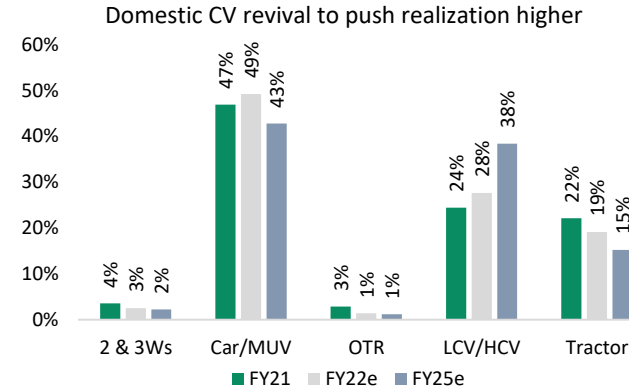
- The company has 50%+ market share in MHCVs, and CV cycle has now started moving up, should benefit SSWL. Margin in the CV segment is higher at mid-teens.
- Additionally, SSWL with flow-form technology is re-entering below nine tons CVs, which we consider as a low hanging fruit, can easily cross-sell due to its strong client relationships. Already received product approval & orders expected from Tata & VECV for 3/5/7 tons.
- CV steel wheels realization is higher by ~2.6x as compared to the blended realization, which will support in faster revenue growth during upcycle.

Financials turning around

- The combination of high margin segments (alloy wheels + exports + domestic CV) to lift revenue, improve margin and will lead to better OCF generation.
- With very small capex required for de-bottlenecking of alloy wheels manufacturing and no capex for any capacity addition in steel wheels over the next few years will lead to an increased FCF, which will be used to pre-pay its debt faster.
- Overall, margins will improve and debt & finance cost will reduce, which will increase EPS and return ratios starting FY22e.

Clean & large strategic investors

- Tata Steel and Nippon Sumitomo Metal Industries are strategic investor since 2008 and 2010 respectively in SSWL.
- Tata Steel has one board seat in the company (Mr. Sanjay Surajprakash Sahni), which gives us confidence and comfort on corporate governance side of the business.



Inexpensive valuations

- Overall, the combination of increasing alloy wheels sales, higher exports, the uptick in the CV cycle, no major capex will boost its financials with increased margin, better return ratios, higher FCF generation and reduction in debt levels. In addition, the company is getting a lot of traction & orders from e2Ws, which is a big value addition.
- **Considering fundamental strengths and improving performance, SSWL is trading attractively at 9.9x FY23e EPS and 7.7x FY24e EPS. On EV/EBITDA, its trading at 5.8x FY23e and 4.4x FY24e EBITDA. We have valued the company by assigning EV/EBITDA multiple of 5.5x to FY24e EBITDA of Rs 6,199mn to arrive at a target price of Rs 1,141 apiece, seeking an upside of 44% from the current level.** We strongly believe that the company has much more potential.

Key risks

- **Delay in the CV recovery and continued shortage of semiconductors might impact volumes**, thus in turn will affect debt reduction ability. However, at the moment the situation looks promising with improvement in chip supplies and demand momentum remain firm as per our checks.
- **Delay in getting clients for alloy wheels in export & domestic market could slowdown improvement in overall financials.** However, SSWL already have PV leaders on its client board & have strong relationships with major ones in India & International markets. They have proven its quality at competitive costs, hence adding a new client won't be much of a challenge for SSWL.
- **Increase in the competition from global players in steel/alloy wheels may put pressure on margins.** But, the giant capacity of SSWL, which has been making products at India cost & quality of international standards, along with strong clientele relationships makes it a formidable player in wheels. That's the reason why luxury global car makers buys from SSWL. The competition is already there, however what will be the differential factor is the technology, turnaround time along with quality. All these are keeping SSWL ahead of the competitors.
- **Improvement in the US-China relationships & reduction in imposed duties on Chinese manufacturers.** Here, tariffs from Trump to Biden administration continued on Chinese wheel makers. So far, duties are imposed till 2024. Also, global OEMs have already adopted additional supplier policy other than China. SSWL has benefited from it and is in further talks with major OEMs to sign long term contracts with the company.

About Steel Strips Wheels Ltd (SSWL) -

CMP: Rs 792, Market cap: Rs 25bn, Promoters holding: ~63%



SSWL is led by:

Chairman:

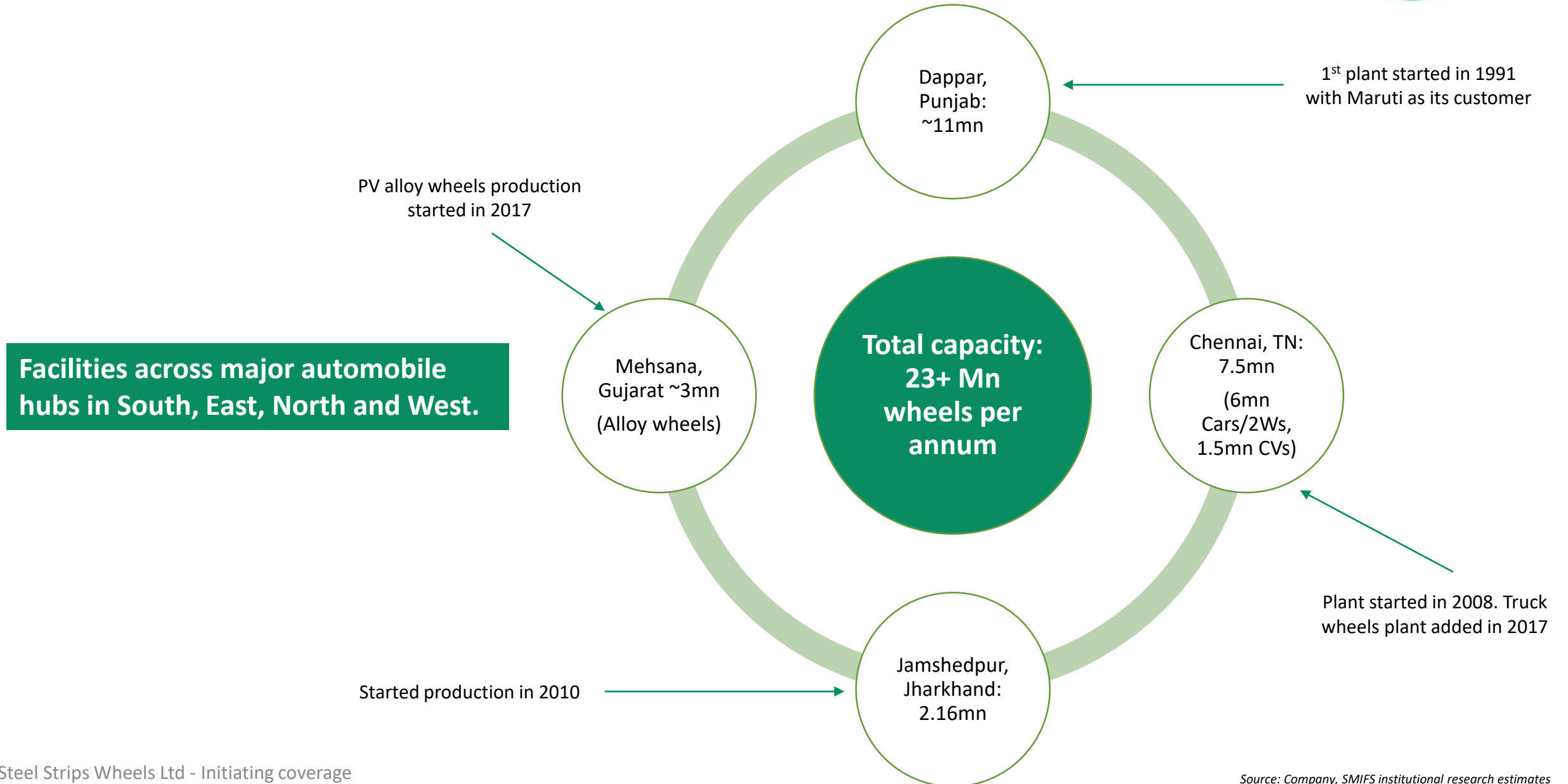
Mr. RK Garg

Managing Director:

Mr. Dheeraj Garg

- ✓ SSWL manufactures steel and alloy wheels for automobile, tractors and off-road equipment makers to serve clients in domestic (*77% of total volumes in FY21*) as well as export markets (*23%*).
- ✓ The company founded in 1991, is based out of Chandigarh and has four plants across zones in India with a total capacity of 23+ Mn wheels per annum. It is one of the largest player in steel wheels and fast gaining ground in high margin alloy wheels and export markets.
- ✓ Started business with Maruti Suzuki, and now has almost all domestic large OEMs in its kitty. BMW, Audi, JLR, PSA, among others are in the export client list.
- ✓ The calculated market share of SSWL in steel wheels is about 52% in PVs, 37% in tractors, 33% in CVs (Majorly present in MHCVs), 29% in two & three wheelers. Its PVs alloy wheels market share is 20%, growing faster from just 3% in FY19.
- ✓ Tata Steel (*7.0% shareholding in SSWL*) and Nippon Sumitomo Metal Industries (*5.5%*) are strategic investor since 2008 and 2010 respectively in SSWL. Tata Steel has one board seat in the company, which gives us confidence that there won't be any corporate governance issue.

Manufacturing plant and its capacities



Facilities across major automobile hubs in South, East, North and West.

Long list of clientele.. top ones mentioned below!



← Passenger vehicle clients

Tractor customers →



Long list of clientele.. top ones mentioned below!... continued



Commercial vehicles / Off-road customers

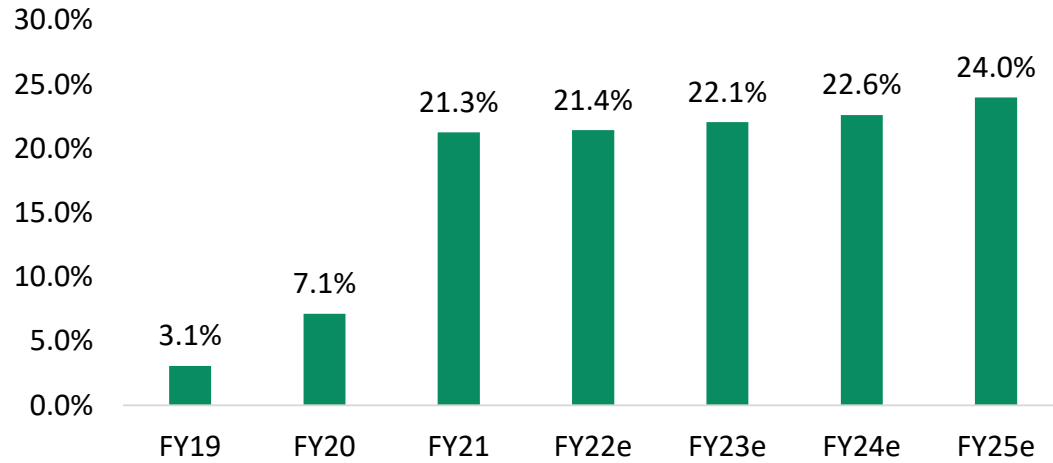


Two and Three wheeler clients

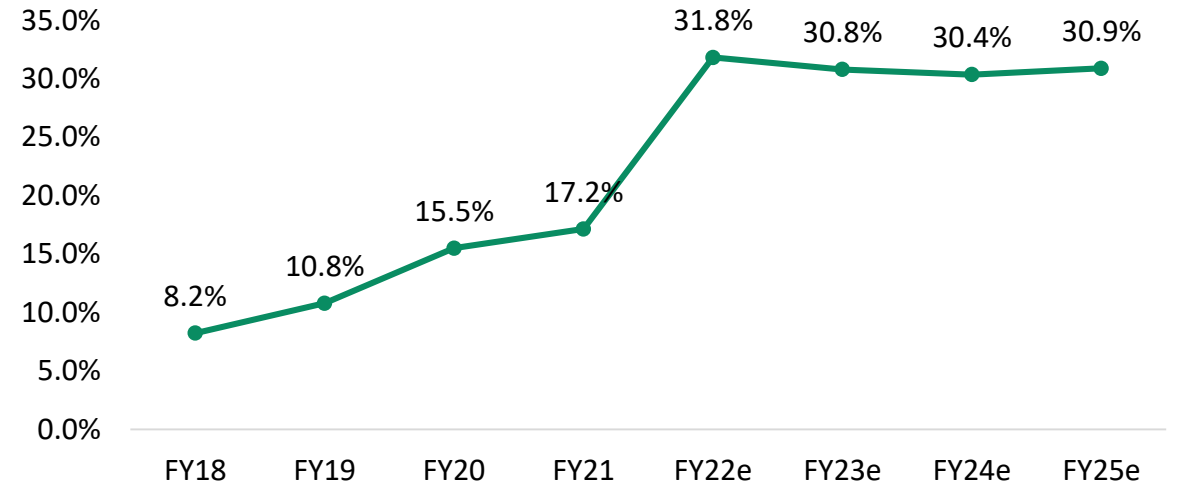
Investment thesis in charts



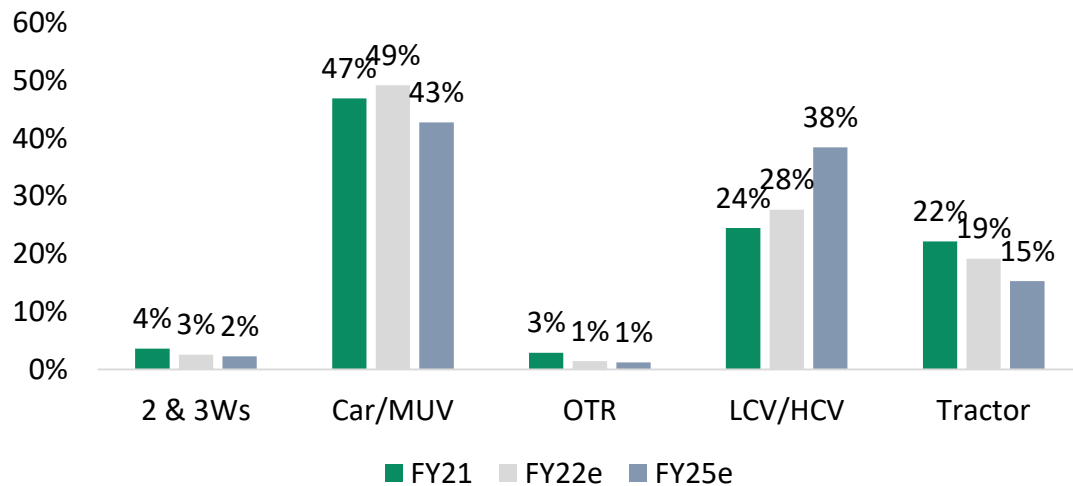
High margin alloy wheels value contribution to touch 24% level by FY25e



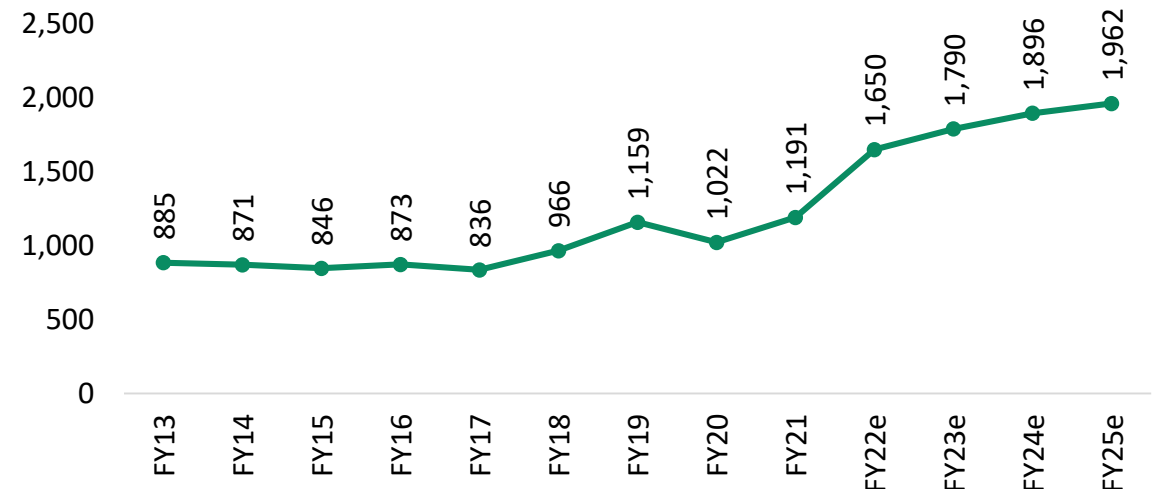
Exports value contribution to sustain 30%+ level



Domestic CV revival to push realization higher



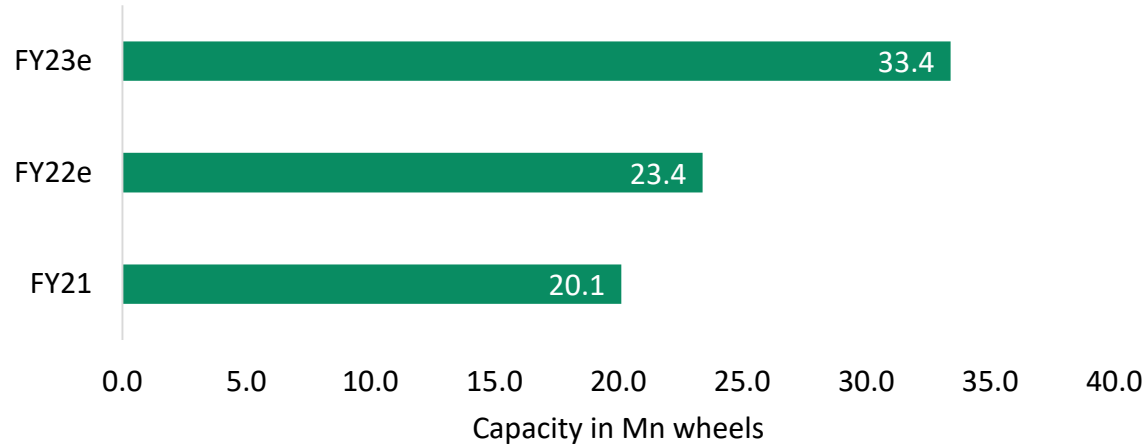
Blended realization (Rs)



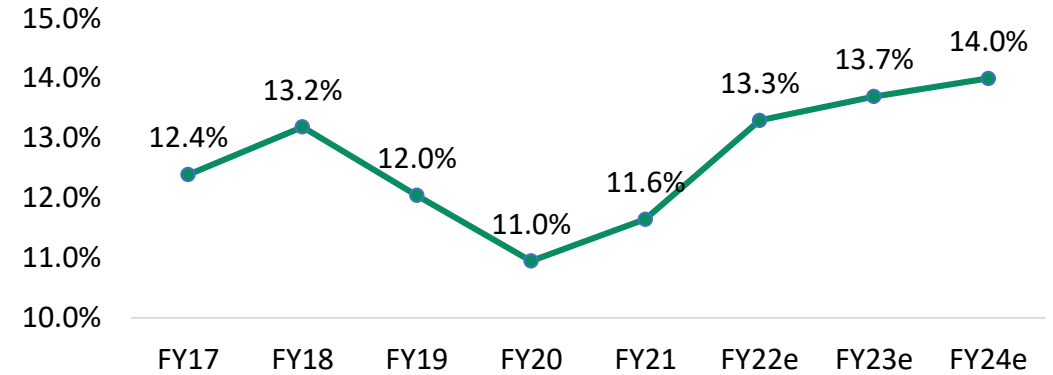
Investment thesis in charts... continued



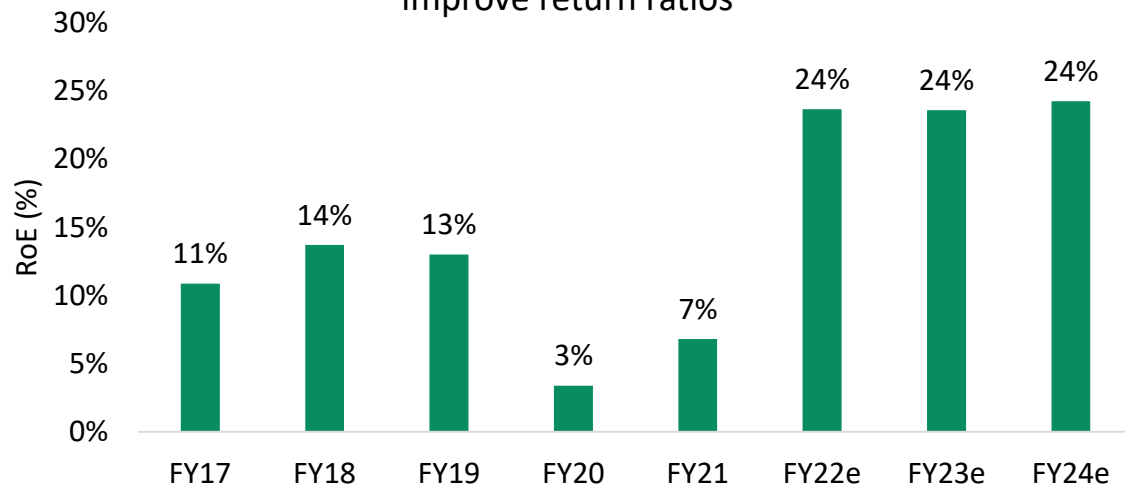
No capex required after AMW's ongoing acquisition



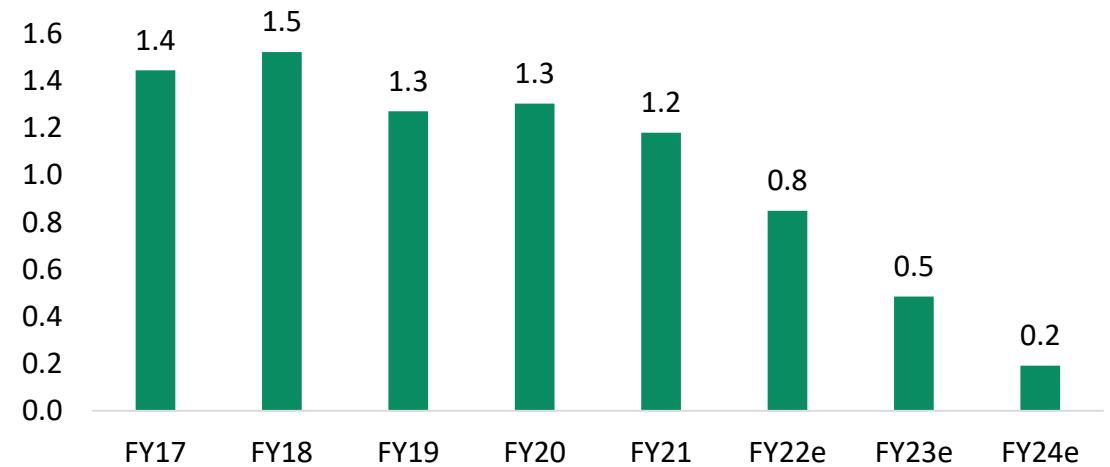
Increase in exports, alloy wheels & domestic CV revival to improve margin



Increasing margin trajectory & better utilization of assets to improve return ratios

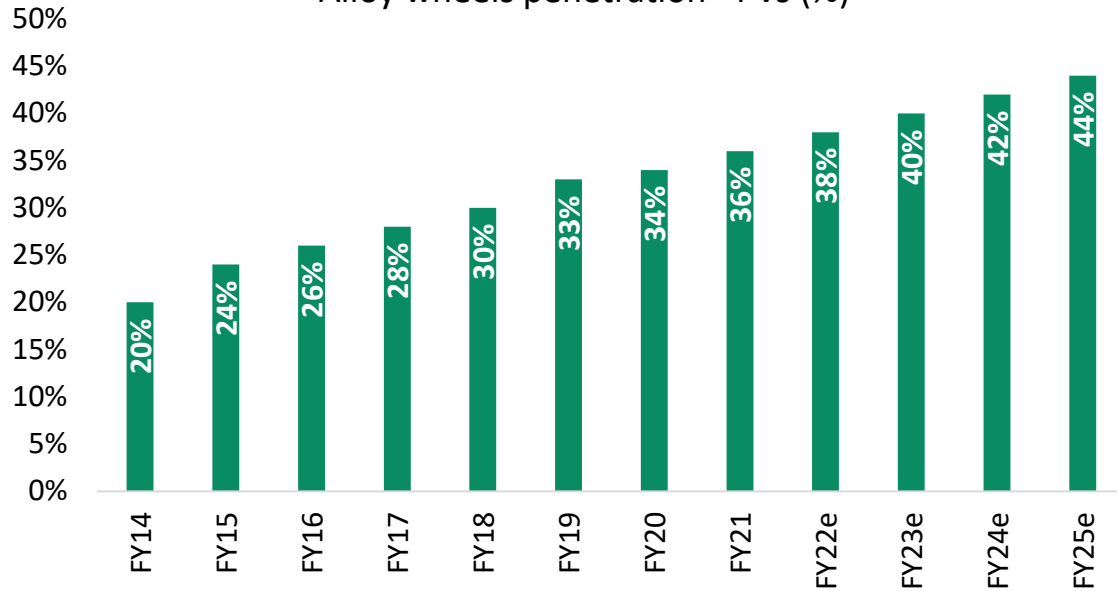


No capex, margin improvement leads to better FCF generation & reduction in Net D/E (x)



Alloy wheels – the next big trigger for growth

Alloy wheels penetration - PVs (%)



- Alloy wheels penetration fast grown from 20% in FY14 to 36% in FY21.
- The industry is gradually moving towards alloy wheels. Hence the opportunity is good.



LIGHTER

Lower vehicle weight increases freight efficiency and fuel economy.



BRIGHTER

Enhance image. Benefit from confidence.



STRONGER

Improve productivity. Lower lifetime costs.

Why alloy wheels penetration is increasing...?

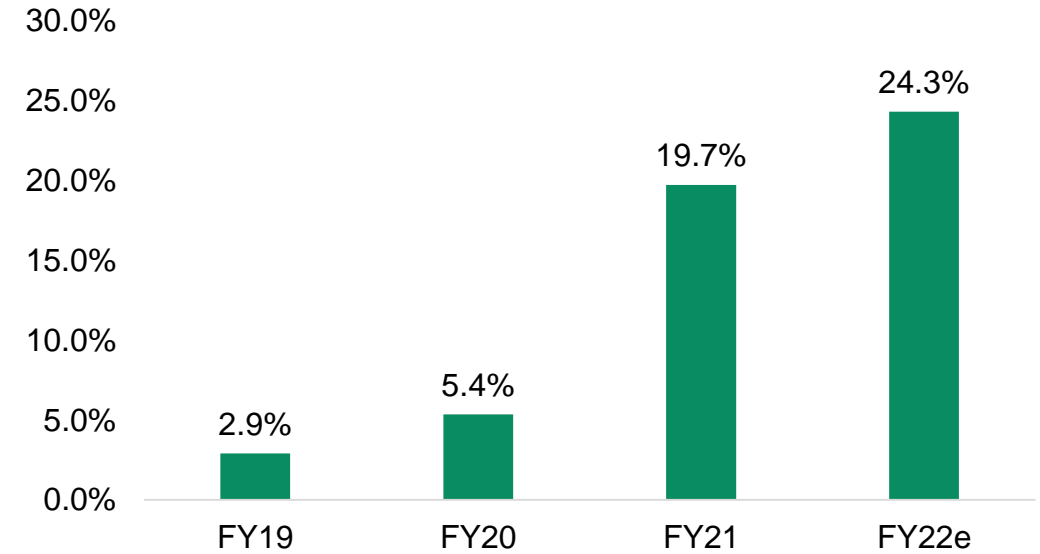
- Alloy improves overall appearance of a car. Adds beauty, elegance & a sporty look.
- Can be customized to premium designs & sizes.
- As alloys are light in weight, it increases fuel efficiency.
- Lighter rotational mass improves acceleration & braking.
- Longer tire life because of better heat dissipation (alloy wheels are better conductor of heat).
- No corrosion or rust, perfectly round & balanced hence no wobbling even at high speed.
- Suitable for modern tubeless tires as its perfectly air tight, and other factors.

Alloy wheels industry size & SSWL improving market share



Industry size estimation & market share calculation	FY19	FY20	FY21	FY22e
Passenger vehicles - alloy				
PV production (No of units)	4,043,800	3,421,682	3,062,280	3,790,626
No. of wheels per car	5	5	5	5
Total market size (Units in Mn)	20.2	17.1	15.3	19.0
Alloy wheels penetration (%)	33%	34%	36%	38%
Alloy wheels market size (Mn)	6.7	5.8	5.5	7.2
SSWL alloy wheels volume sales (Mn)	0.2	0.3	1.1	1.8
SSWL calculated market share (%)	2.9%	5.4%	19.7%	24.3%

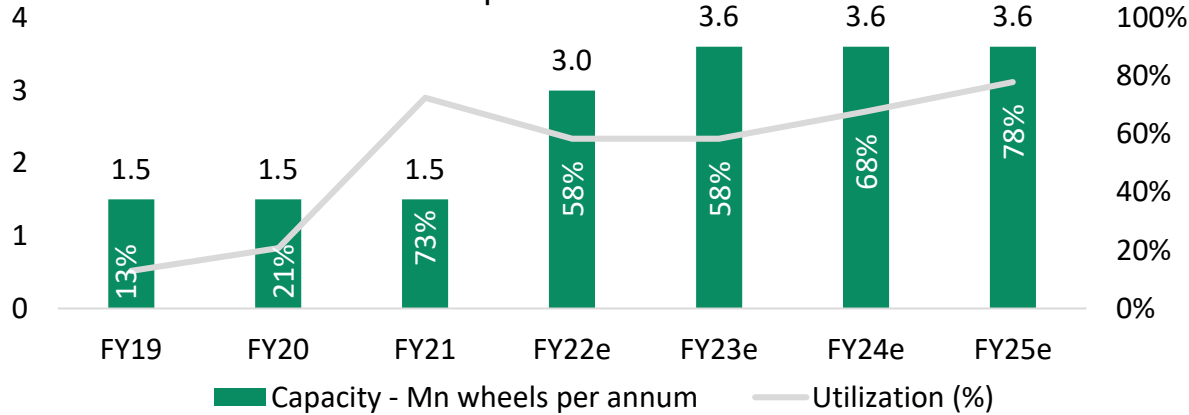
SSWL calculated market share (%) - PV alloy wheels



- ✓ SSWL already sold 1.3mn alloy wheel units in 9MFY22.
- ✓ It can easily sell 0.44mn units additional in Q4FY22 as semiconductor situation is improving in the domestic PV industry and hence OEM volumes will be higher.
- ✓ Overall, estimated total alloy wheel sales of 1.75mn units in FY22e.

Alloy wheels – the next big growth driver

Increasing utilization - led by domestic share gains & start of exports from FY23e



1. Capacity is 3.0mn – Jan 2022, de-bottlenecking can increase it by 0.6mn. 50% land is vacant for further expansion in future.
2. In talks with existing steel wheels clients in the international markets to cross sell alloy wheels.
3. Maruti was SSWL’s 1st customer since 1991, have strong relationship and we expect some orders to start coming from Maruti Suzuki in FY23e.
4. Hyundai, Kia, Renault, Nissan, Mahindra and Tata Motors are alloy wheel customers. In talks with several others.

Existing alloy wheels customers	SOB
Hyundai Creta	100%
Hyundai Alcazar	100%
Hyundai Venue	100%
Hyundai Verna	100%
Hyundai Aura	100%
Kia Seltos	18%
Kia Sonnet	50%
Renault Kiger	100%
Nissan Magnite	100%
Mahindra New Xuv 700	100%
Mahindra Xuv 300	100%
Tata Harrier	40%
Tata Punch	100%
Tata Tigor	85%

SSWL have strong relationships with PV steel wheels customers and can easily cross sell its alloy wheels to this large clients base.

Steel wheels customers of SSWL



Alloy wheels market vs. SSWL alloy wheels growth comparison...



Alloy wheels industry vs. SSWL growth comparison	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
PV industry production growth (%)	1%	-15%	-11%	24%	11%	9%	5%
Alloy wheel market's volume growth (%)	11%	-13%	-5%	31%	17%	15%	10%
SSWL alloy wheels volume growth (%)	-	61%	249%	61%	20%	16%	15%

SSWL proved in the past by showing much higher growth as compared to alloy wheels market.

Alloy wheels plant is made with the help of a Korean company.

In addition, SSWL utilized its strong relations with existing OEMs to get more business share.

Projecting only marginally higher growth vis-à-vis alloy wheels market growth.

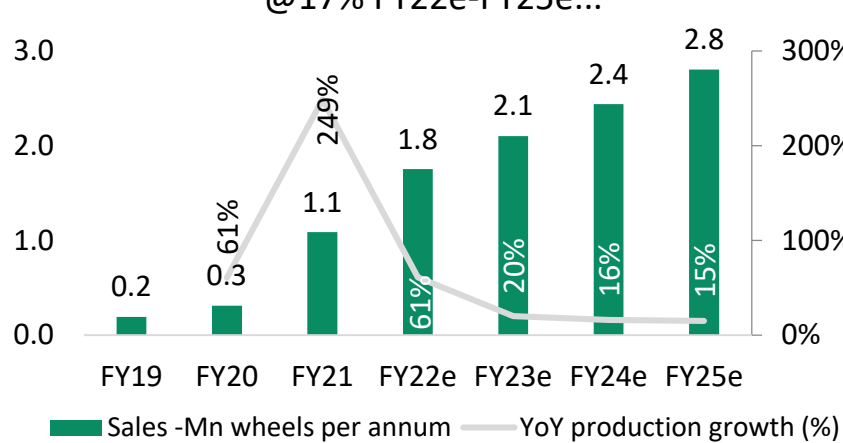
We are not anticipating any OEM addition in international markets.

Although, we do expect new additions & increase of SOB from domestic clients.

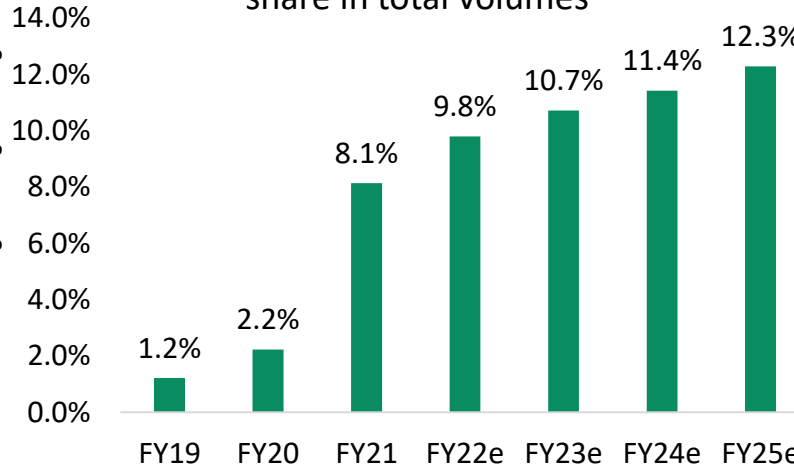
Alloy wheels (high margin product) – graphical representation of its contribution in increasing growth, realization and margins!



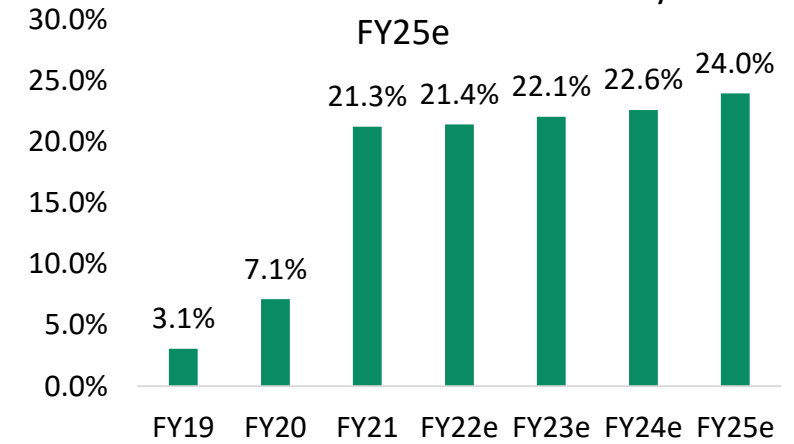
Anticipating alloy wheels volume CAGR @17% FY22e-FY25e...



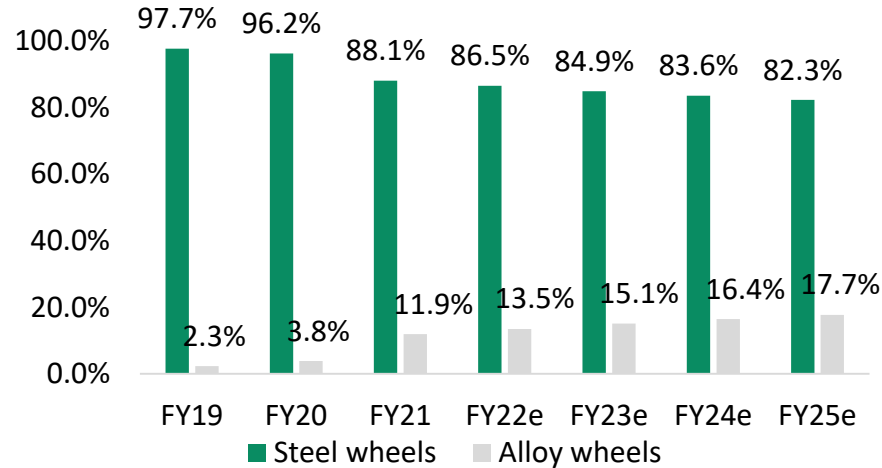
...will gradually improve alloy volumes share in total volumes



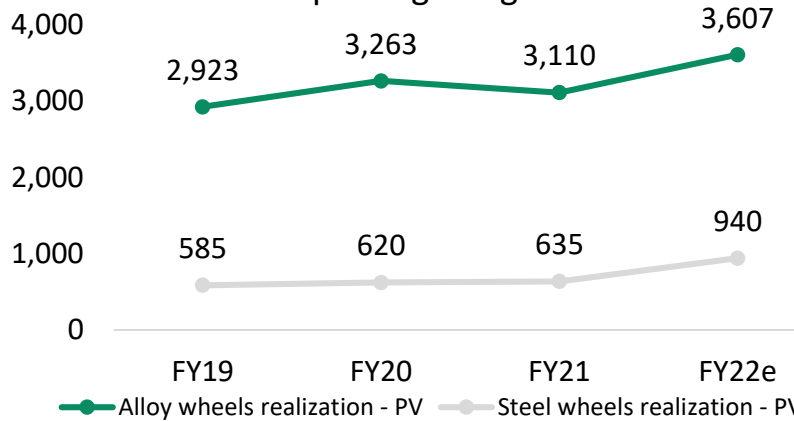
High margin alloy wheels value contribution to touch 24% level by FY25e



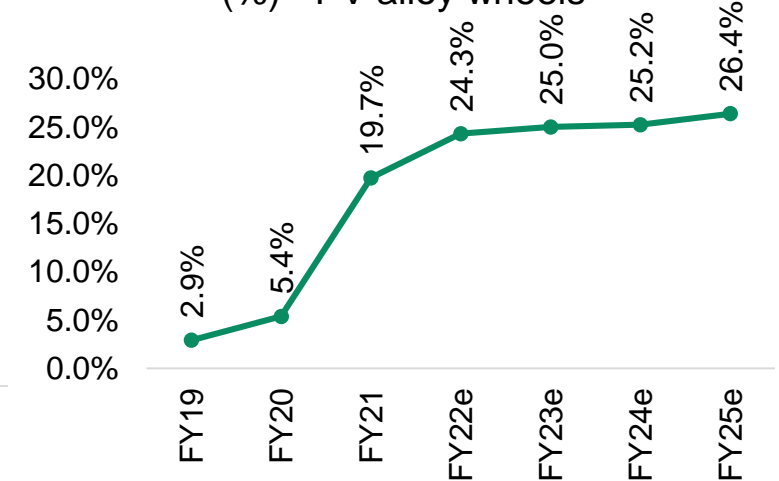
Car Alloy wheels volume contribution to increase vis-à-vis car Steel wheels.



Alloy wheels realization is 3.8x higher than steel wheels, will support in improving margins



SSWL calculated market share (%) - PV alloy wheels



Additional info about SSWL's alloy wheels

- Have 3mn capacity p.a., de-bottlenecking possible, which will increase the capacity to 3.6mn p.a.
- For further expansion, the company already have 70 acres of land parcel in Mehsana, Gujarat, where 50% land is still vacant. If the demand for alloy wheels increases further, than SSWL will do the expansion.
- Alloy wheel plant in Mehsana is close to the major automobile hub in the state of Gujarat.
- The plant is strategically located near to the port for exports

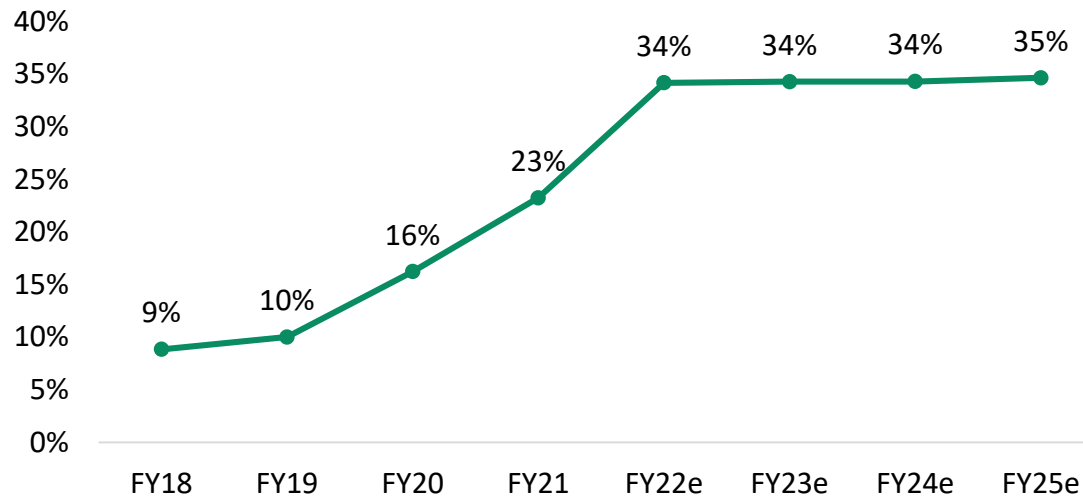
International markets – *enormous opportunities in exports*

SSWL started exports in FY10, however gained traction in the recent past years mainly due to the benefit of China+1 strategy

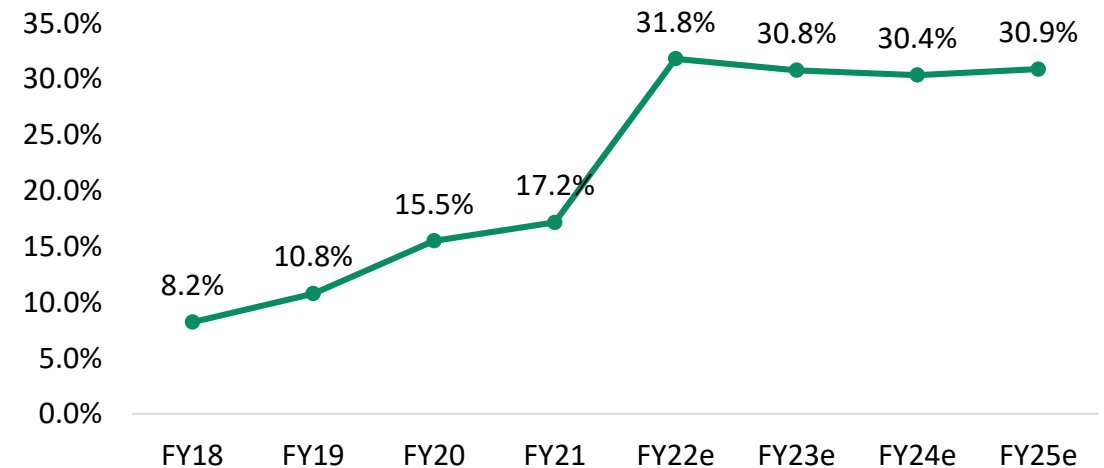
Segments SSWL supplies to:

1. In the US, majorly supplying steel wheels to major PV OEMs, big trailer manufacturers. Additionally, supplying to mobile homes in the US.
2. Similarly, in EU, sells steels wheels to caravan (like vanity vans), PV OEMs and have a little aftermarket.
3. Two of the largest car makers in the world cleared audit for global alloy wheels supply. Hopes to get some orders for alloy wheels in FY23.
4. SSWL covers small to bigger wheels and is not dependent only on the likes of Class 8 trucks.

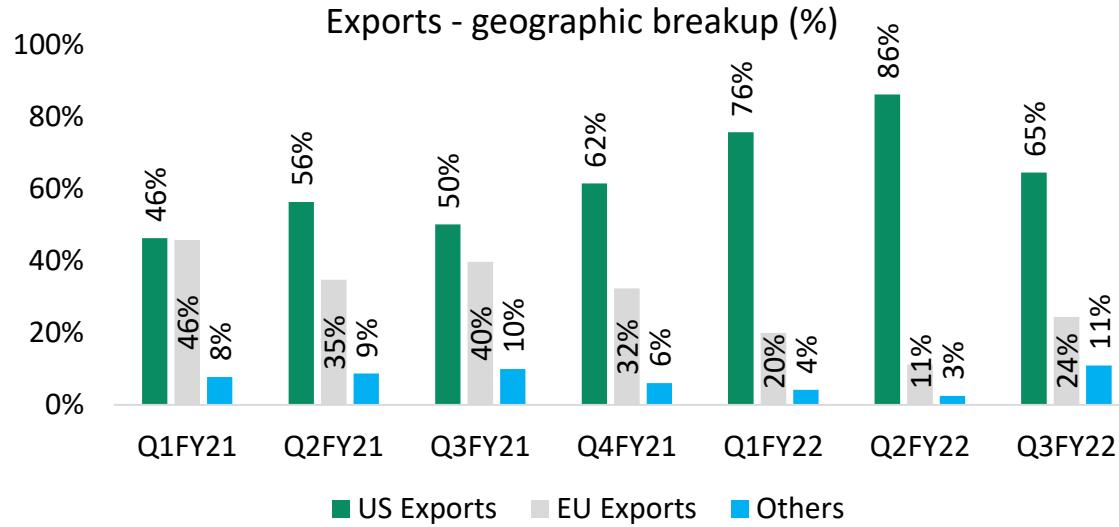
Export volumes as % of total volumes



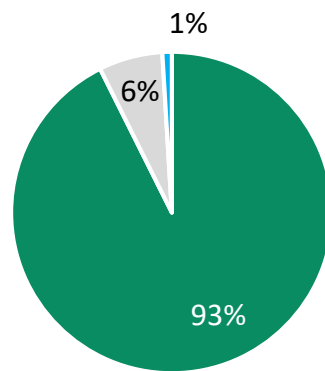
Exports value contribution to sustain 30%+ level



Exports breakup: *Geography wise and Segment wise*

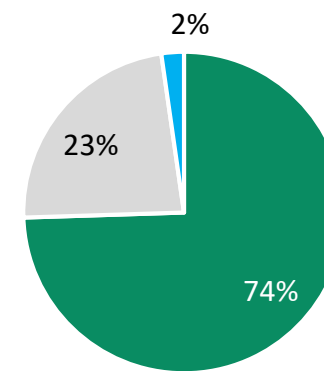


Export volume - FY22



■ Car/MUV ■ LCV/HCV ■ Tractor

Export value - FY22



■ Car/MUV ■ LCV/HCV ■ Tractor

SSWL Export Customers Locations



● Customers Locations

The opportunity in PV exports



The company supplies only spare wheel to the PV OEMs in the US and Europe.

The talks are ongoing to get business for other wheels, which will increase share of high margin exports in total.



Spare steel wheel in a car...

to supplying all steel wheels...

Global OEMs have confidence in SSWL's steel wheels and SSWL's alloy wheels are under lab testing with OEMs.



hunting opportunity to supply alloy wheels

Calculated wheels market size - OEMs	Mn units
Global PV	350
US PV	75
US CV	7
EU PV	49
EU CV	16

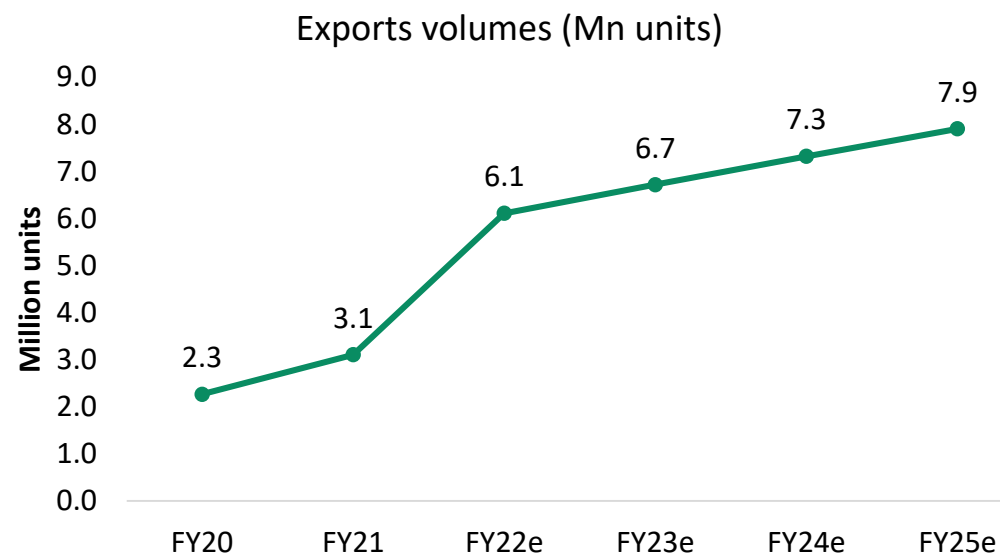
Calculated market size is gigantic, SSWL started getting traction since last 1-2 years, expect the momentum to continue as quality, deliverables are not less than any global player.

Maxion, Accuride, Alcoa Wheels, Jantsa, among others are major players.

We trust that exports should grow by ~14% value CAGR in the upcoming three financial years on account of:

1. a low base,
2. benefits from China+1,
3. trust of global marquee clients on SSWL, the company will get additional steel wheels orders,
4. Expect alloy wheels exports to start in FY23e and is likely to start supplying to a few major PV OEMs due to strong existing relationships with them.

AMW AutoComponent's Bhuj plant will also be used to supply steel wheels to export markets.



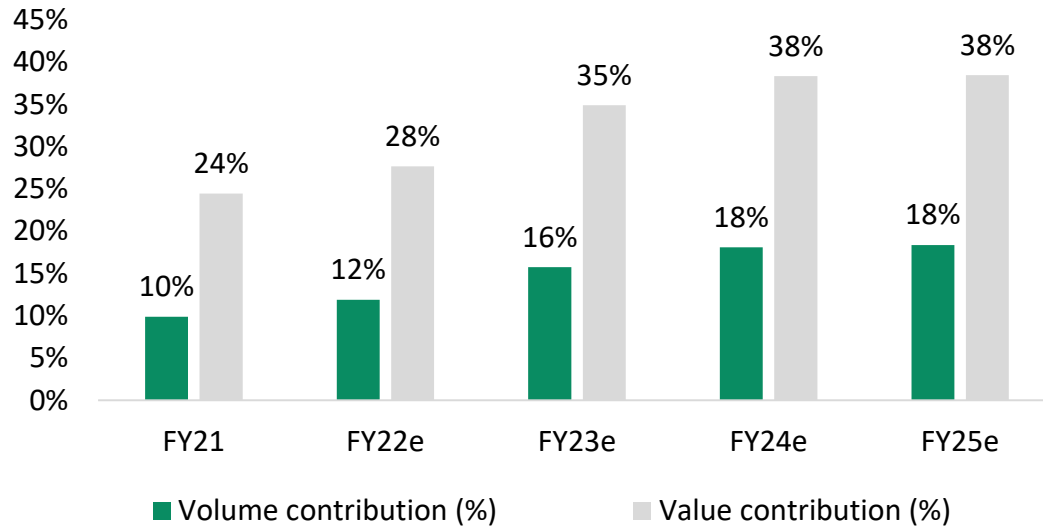
Assumed marginal 9% volume CAGR FY22e-FY25e

Domestic CV revival will improve financials

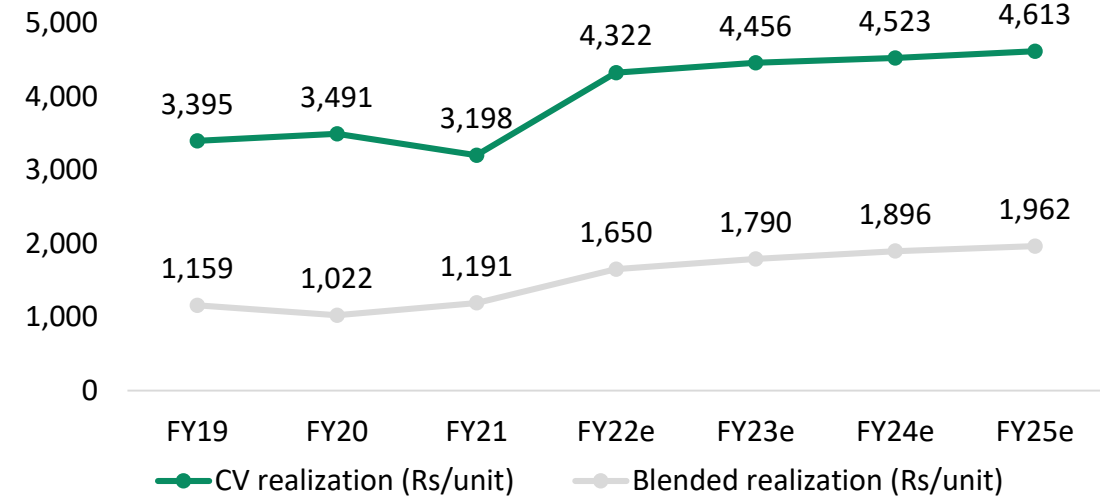
CV cycle is now moving up, SSWL is aggressively entering into LCVs less than 9 tons with the same machinery, only process redefining will happen. Expect to get into it by FY23



Domestic CV volume & value contribution



CV realization is ~2.6x higher than blended average realization



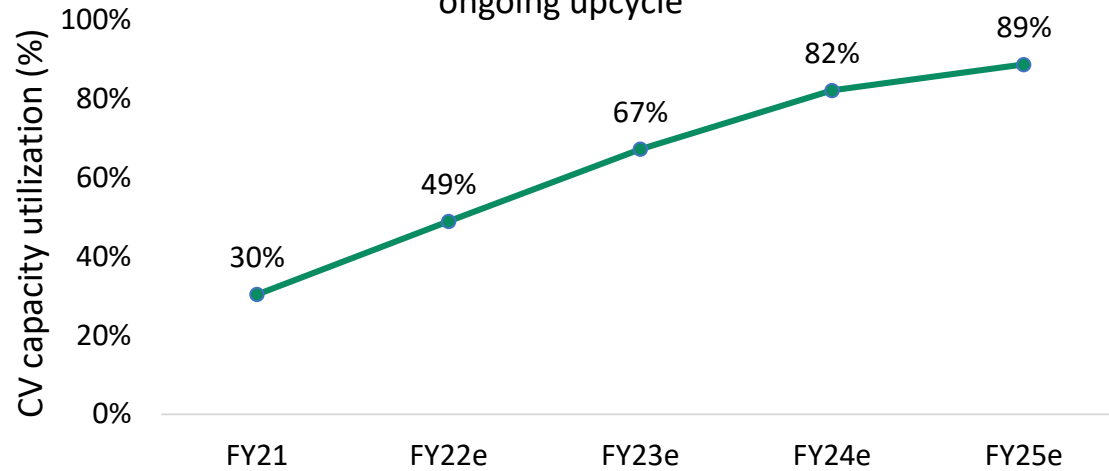
- ✓ **LCV in peak years contribute 60% of total domestic CV volumes and 70% in downcycle years.**
- ✓ Hence, LCV volumes are huge, which should provide additional volumes, revenues and some operating leverage. Moreover, LCV to help diversify and reduce high cyclicality of MHCVs.
- ✓ At present, as there are no LCV orders in hand hence we haven't incorporated the same in the financials.
- ✓ However, we believe it will be easy for SSWL to expand into LCV wheels as the company already have 53% market share in MHCV with strong relationship across major OEMs like Tata Motors, M&M, Ashok Leyland, VECV & Maruti Suzuki.

Low hanging fruit is the CV upcycle, also have a backup plan of LCVs

Adequate capacity to play the MHCV upcycle, globally too LCV is a big opportunity

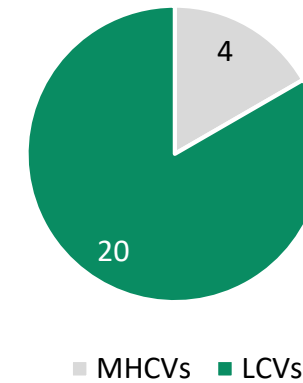


SSWL has 3.7mn CV wheels capacity – sufficient to play the ongoing upcycle



Sufficient capacity to play the upcycle

Global commercial vehicle volumes (Mn units)



LCVs globally is a big opportunity

- ✓ At present only supplying LCV wheels to Ashok Leyland to maintain relationship.
- ✓ Introduced flow forming technology, which identifies stress point in wheel rims, reduces the RM required where stress is less and will give reduction in the overall weight of a wheel. Special flow forming machines, imported from Germany and Japan.
- ✓ By using flow forming technology in LCV wheels, overall weight of LCV wheel will comedown and RM cost reduction will be net savings.
- ✓ Customers approved flow forming technology, will expand beyond Ashok Leyland and expect to start business with Tata Motors and VECV in 3/5/7 tons.
- ✓ SSWL plans to implement similar technology in alloy wheels, where weight will come down by 20%, pricing will be less than competitors without compromising the quality.

AMW's acquisition – *at throw away price*

Buying AMW AutoComponent from NCLT – at final stage of acquisition

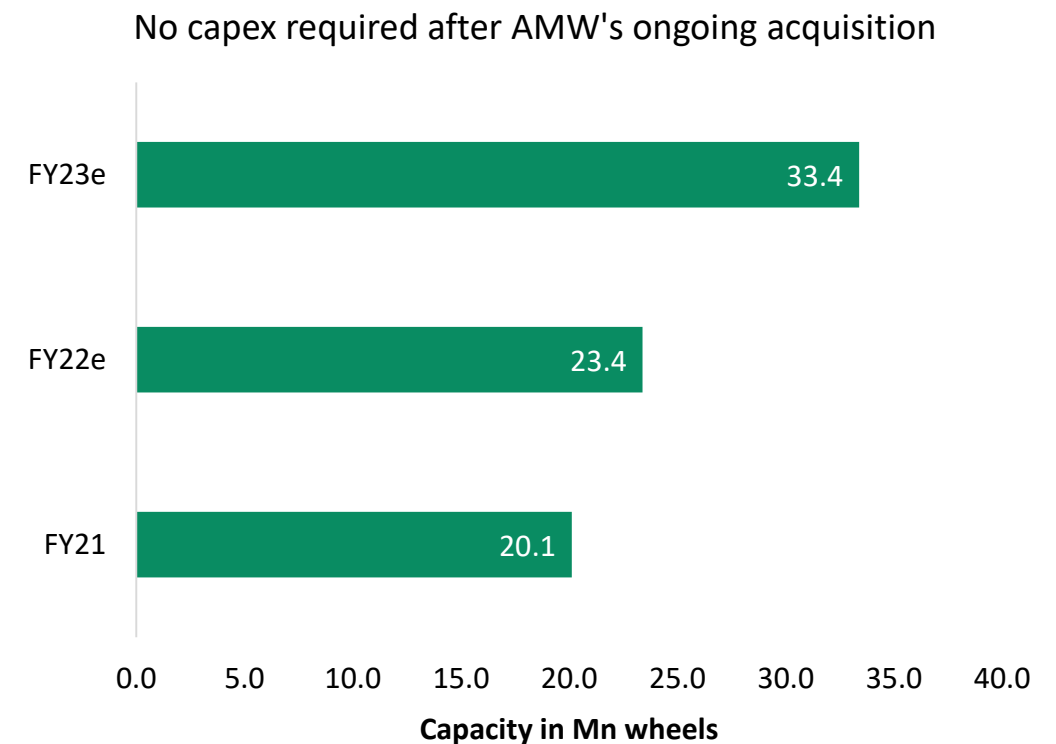


About AMW AutoComponent

- ✓ Started business in 2009 primarily manufacturing steel wheels for PVs, CVs and tractors. It has capacity of ~10 Mn steel wheels p.a. (3 production lines for PVs, 2 lines for CVs and 1 for tractor steel wheels). But, its utilization has never crossed 25%.
- ✓ AMW AutoComponent has one plant in Bhuj, Gujarat was supplying to domestic and export customers (75% of the revenue), primarily in the US. In exports, were majorly supplying to CV trailer manufacturers and no PV OEM was its client.

Attractive acquisition - benefits to SSWL and status of the deal

- ✓ **SSWL is buying under Rs 1.5bn for a capacity of 10mn i.e. just paying Rs 150mn per 1mn wheels capacity.**
- ✓ **Approximately, the capex for setting up 1mn steel wheels plant is Rs 1bn and Rs 2bn for alloy wheels plant.**
- ✓ Steel Strips will increase its capacity from 23.4mn in FY22e to 33.4mn in FY23e i.e. an increase in the capacity by ~43% at a throw away price.
- ✓ Post this acquisition, no major capex is required for the next few years.
- ✓ Majority (98.5%) of the creditors approved this deal, COC recommended only one name (i.e. SSWL) to NCLT. Expect final hearing in Q1, and post that possession in 90 days.



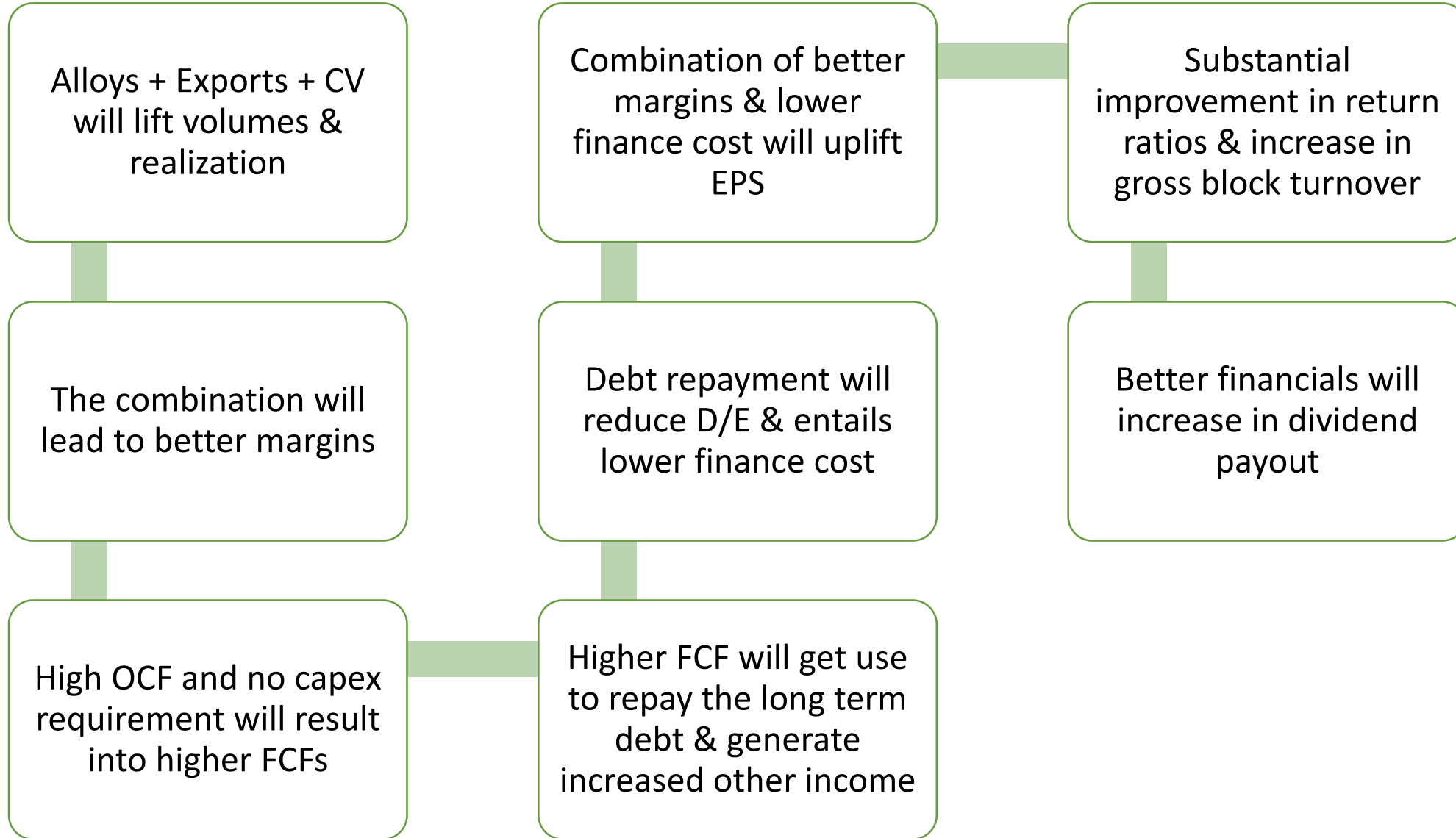
Other key information about AMW deal

- ✓ Steel Strips will fund this acquisition from internal accruals, some amount is already paid/deposited. Debt will be the last option.
- ✓ AMW will roughly add Rs 4.1bn to SSWL's revenue if assumed 25% capacity utilization of AMW's capacity. Although, we haven't incorporated AMW in the financials.
- ✓ Industry pricing is likely to increase after AMW's acquisition as number of players will reduce.
- ✓ AMW's Bhuj plant will mostly get used for exports, which is expected to grow in the coming years.



Turnaround in financial metrics

SSWL's financials are turning around...!



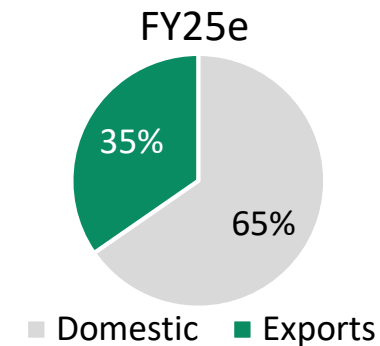
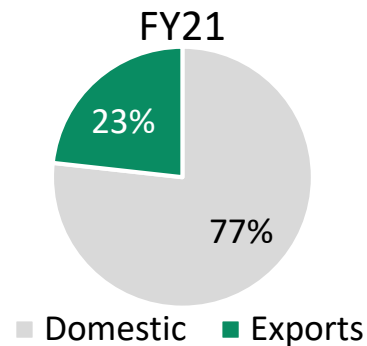
Projected single digit volume growth, which is likely achievable led by growth in the domestic CV volumes, along with exports and alloy wheels



Total volumes	FY21	FY22e	FY23e	FY24e	FY25e
Volumes (Mn wheels)	13.4	17.9	19.6	21.3	22.8
YoY growth (%)	-4.4%	33.8%	9.6%	8.9%	6.9%

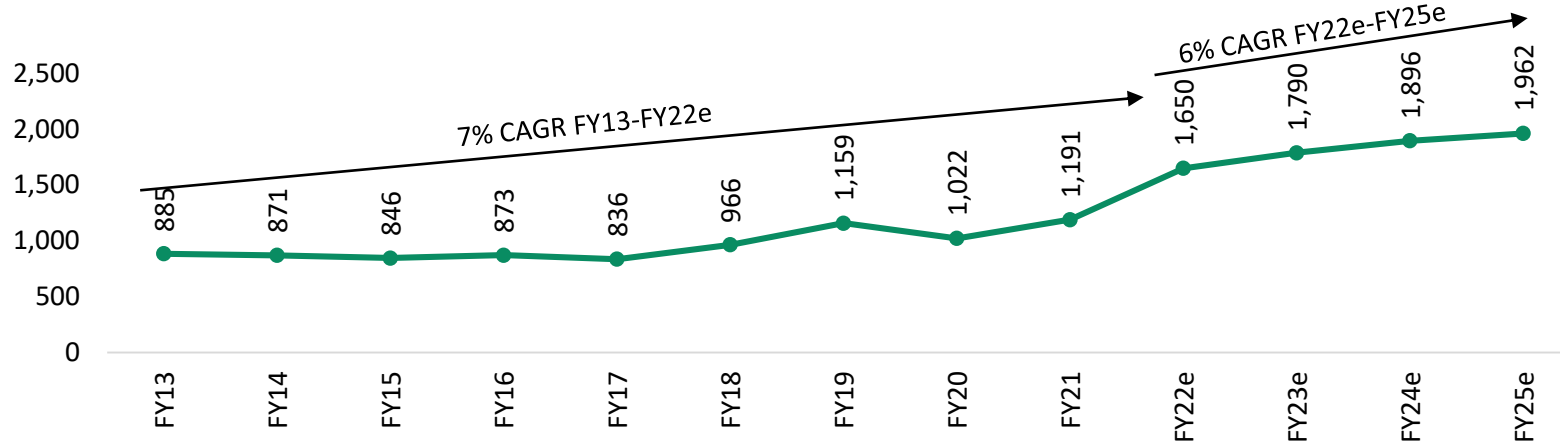
Volume mix (%)					
2 & 3Ws	12%	8%	8%	8%	8%
Car/MUV	68%	73%	71%	70%	69%
OTR	1%	0%	0%	0%	0%
LCV/HCV	8%	10%	13%	14%	14%
Tractor	10%	8%	8%	8%	8%

Cars/MUV volume mix (%)					
Alloy wheels	12%	13%	15%	16%	18%
Steel Wheels	88%	87%	85%	84%	82%

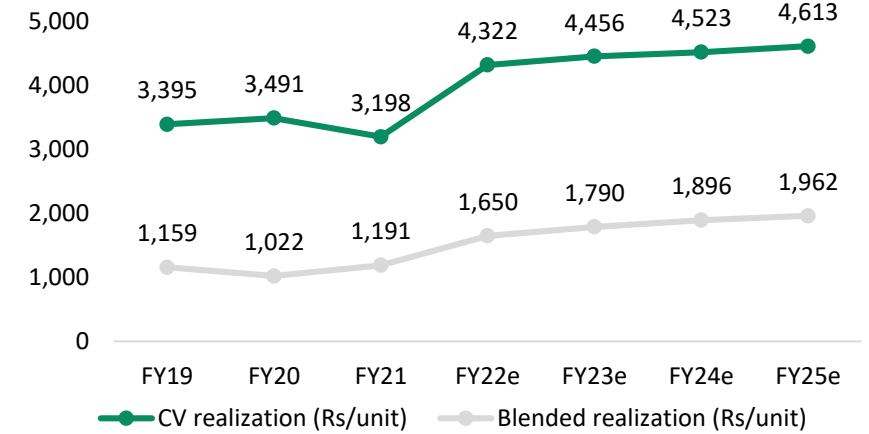


Blended realization expected to improve...

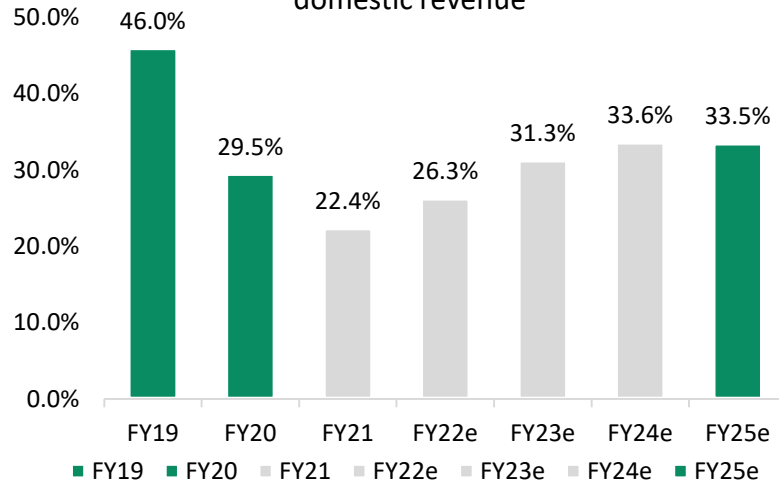
Blended realization to improve led by a combination of increasing contribution from high realization CV + Alloy Wheels business units



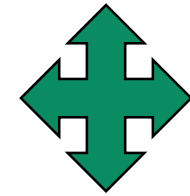
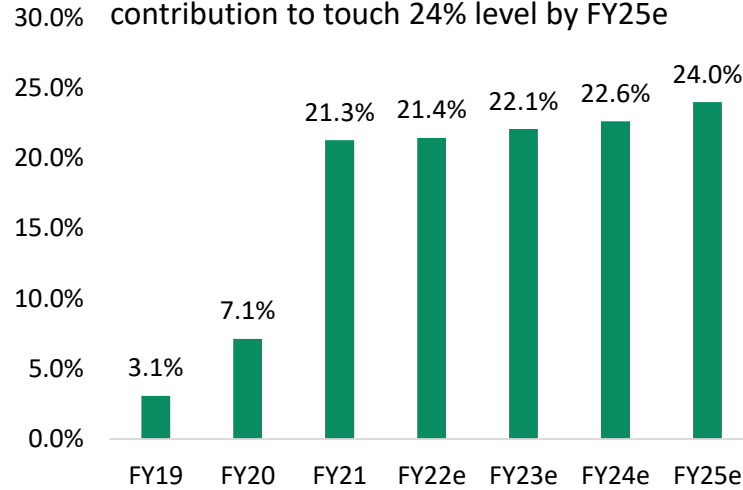
CV realization is ~2.6x higher than blended average realization



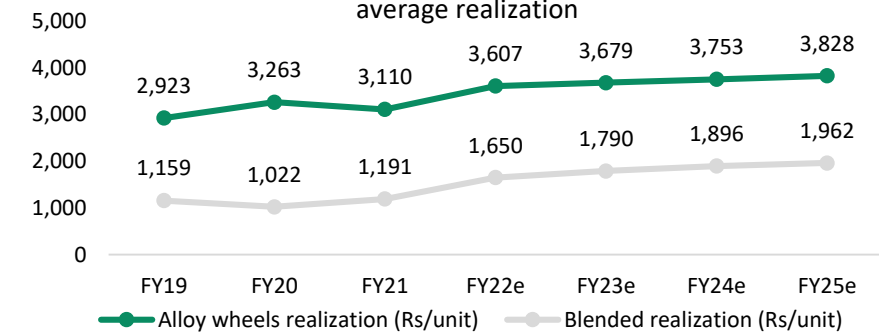
High realization CV contribution to increase in domestic revenue



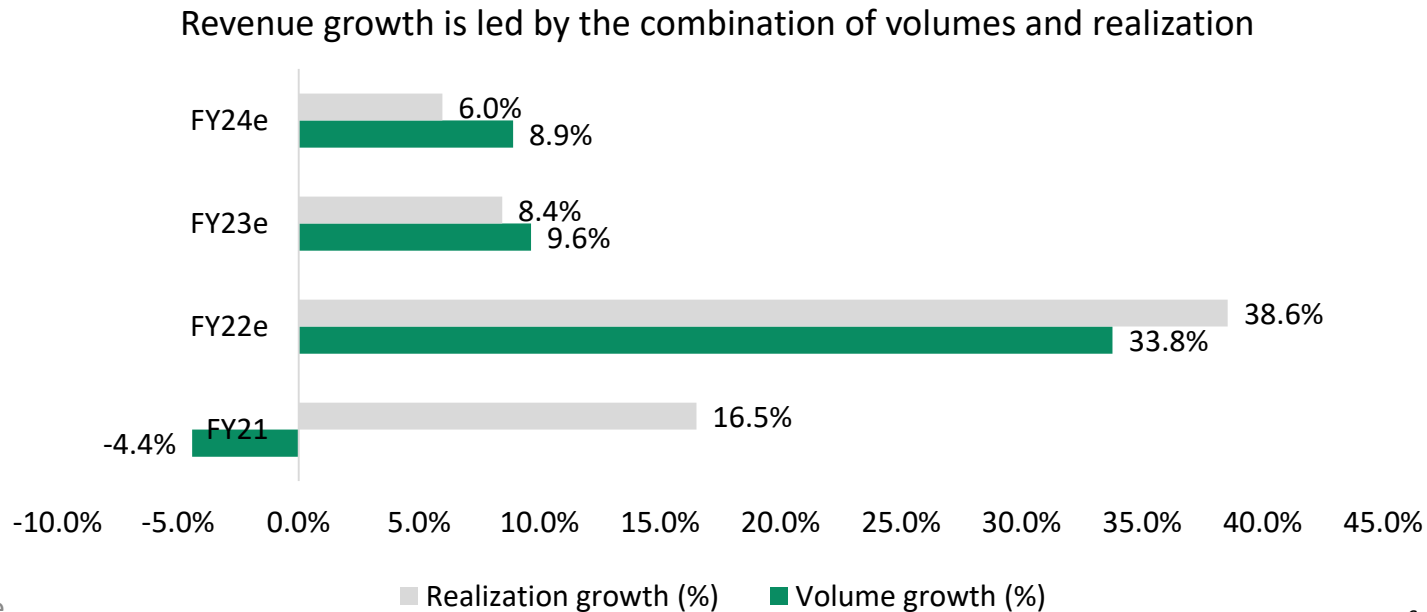
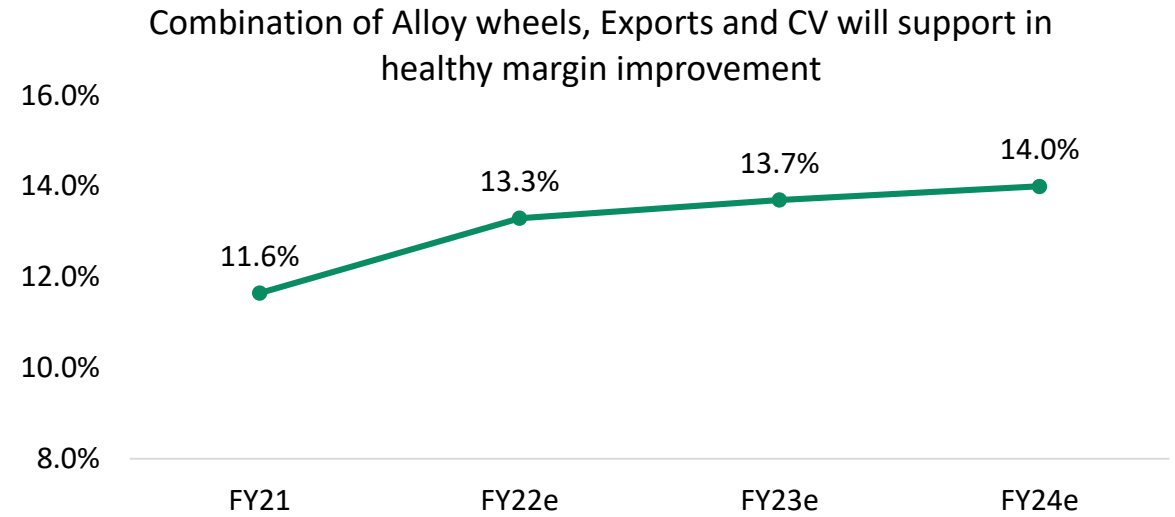
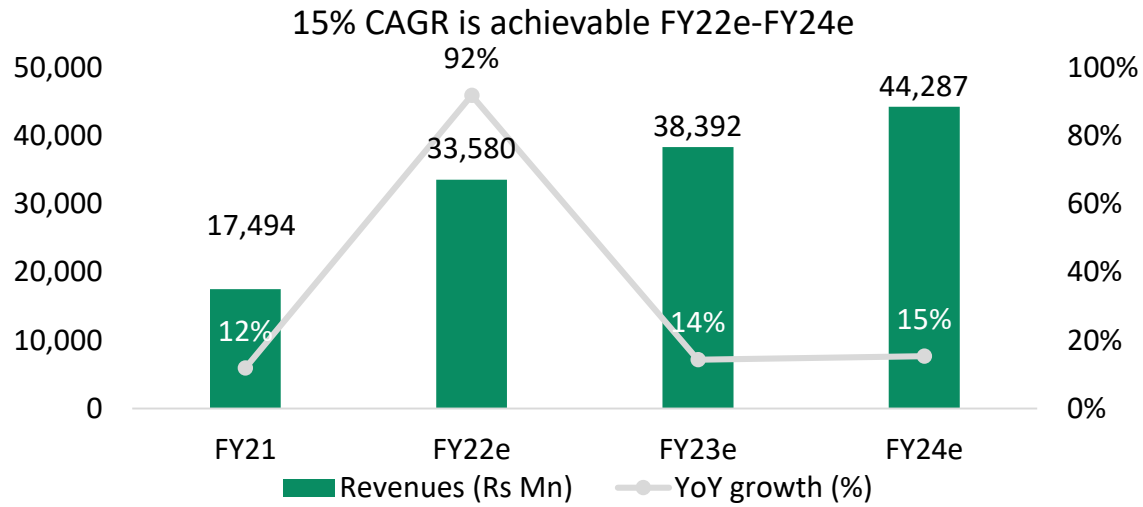
High margin alloy wheels value contribution to touch 24% level by FY25e



Alloy wheels realization is ~2.2x higher than blended average realization



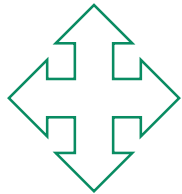
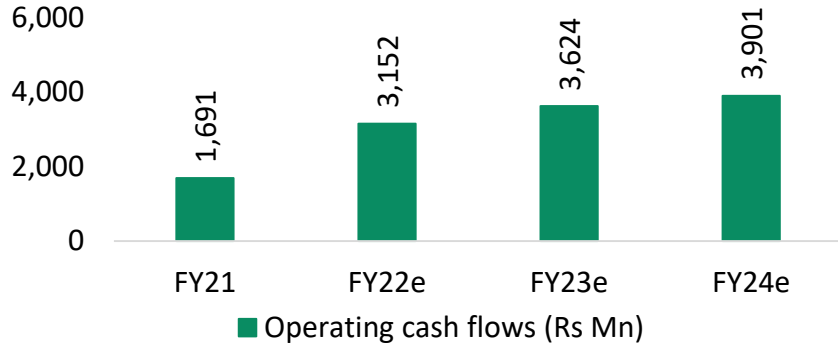
SSWL's financials are turning around...!



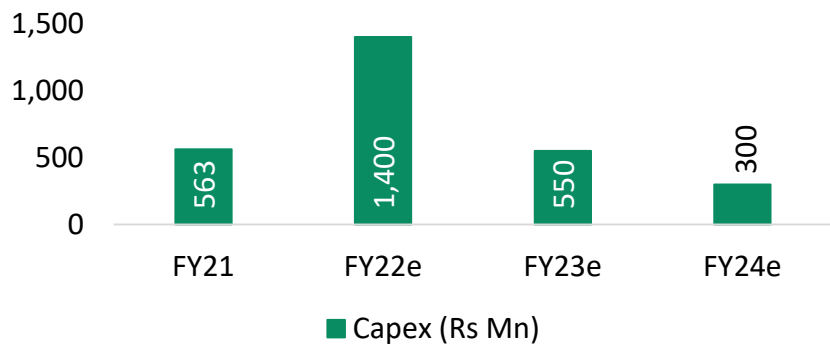
SSWL's financials are turning around...!



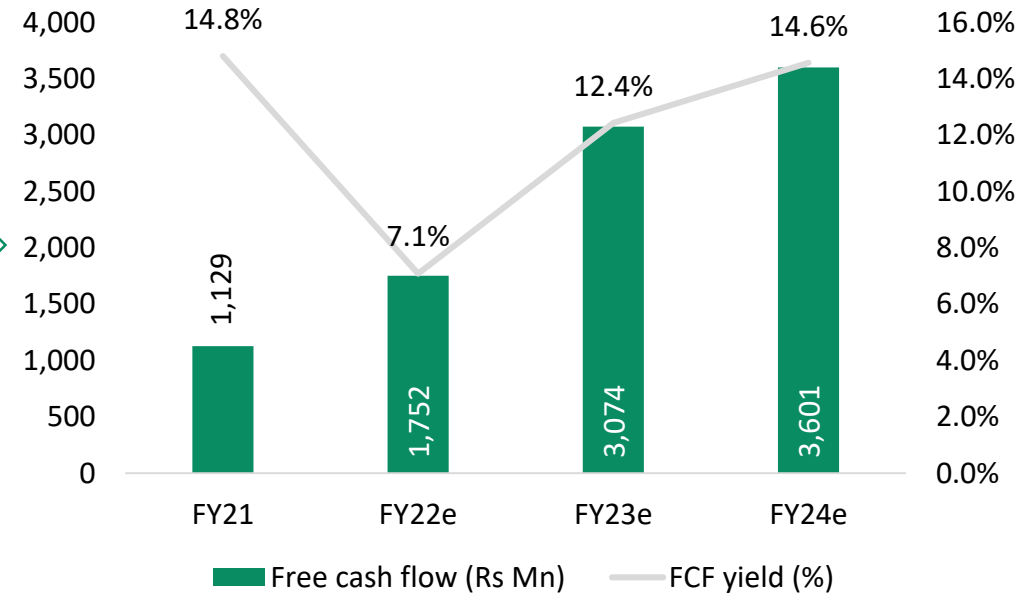
Better operational performance will generate higher OCF



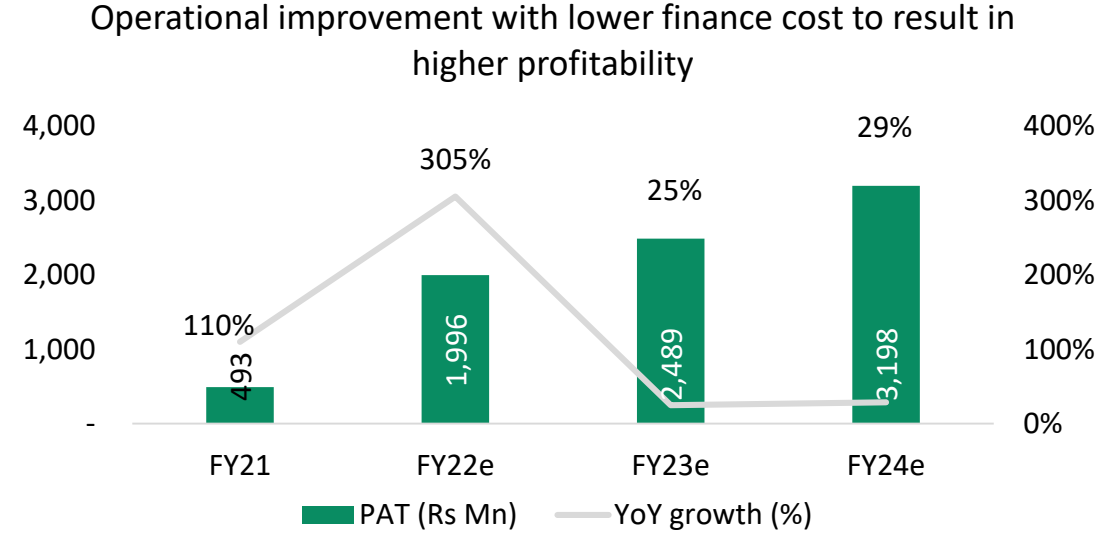
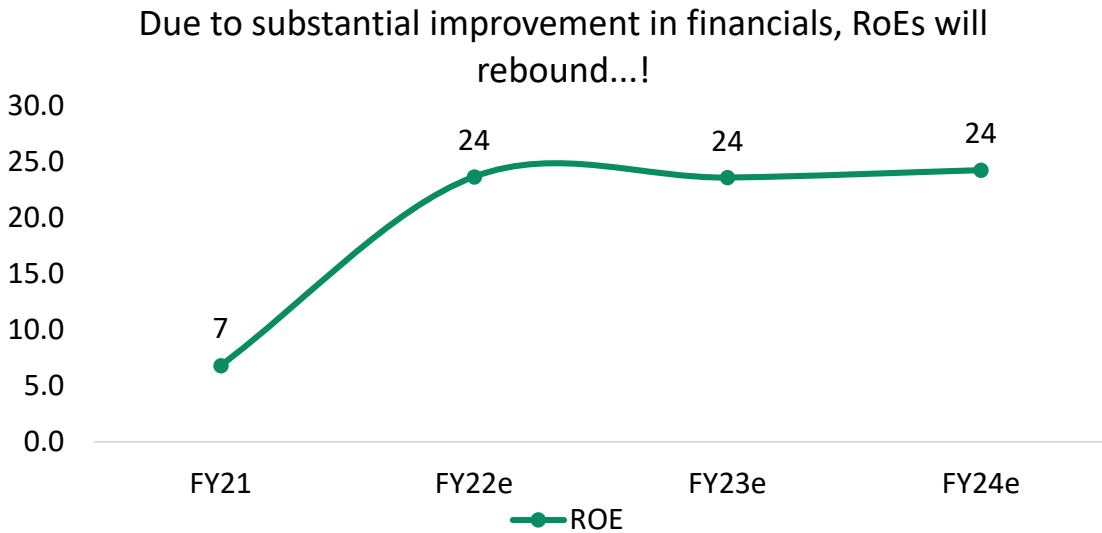
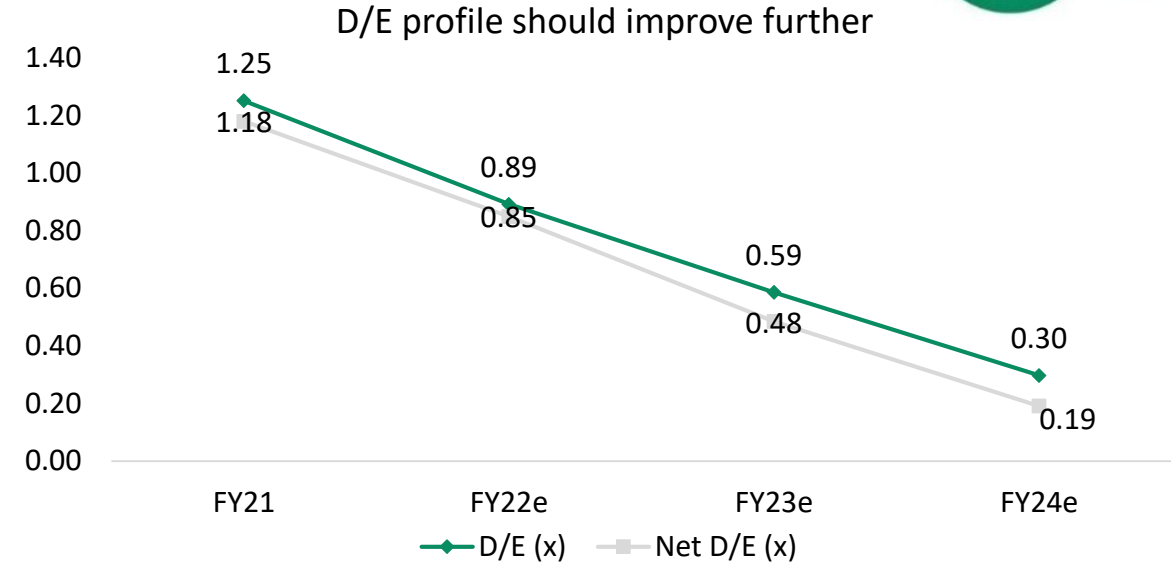
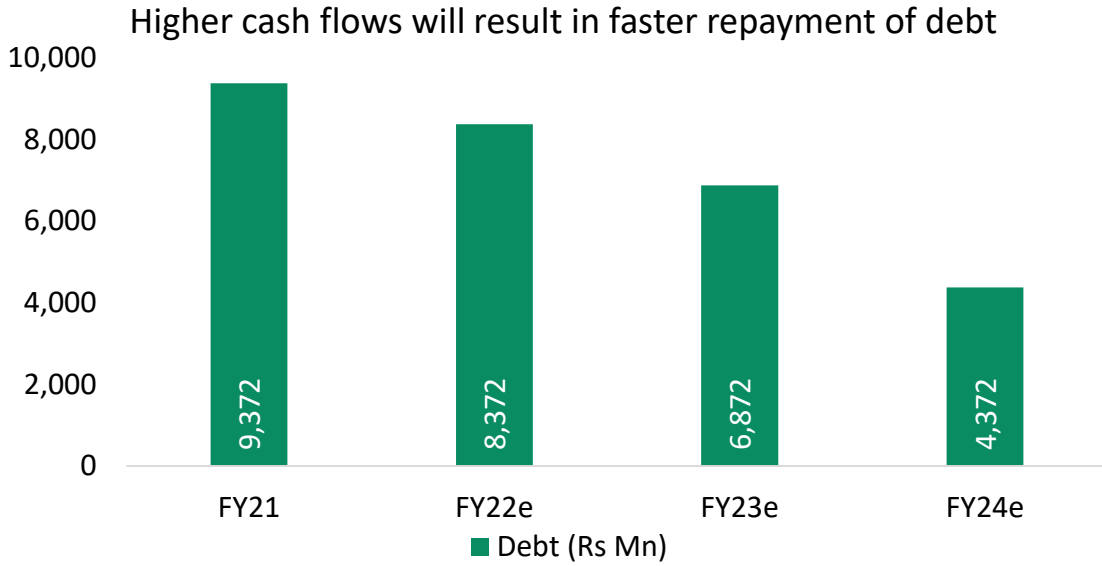
Have sufficient capacity... no major capex required



Combination of higher OCF & lower capex will result in higher free cash flows



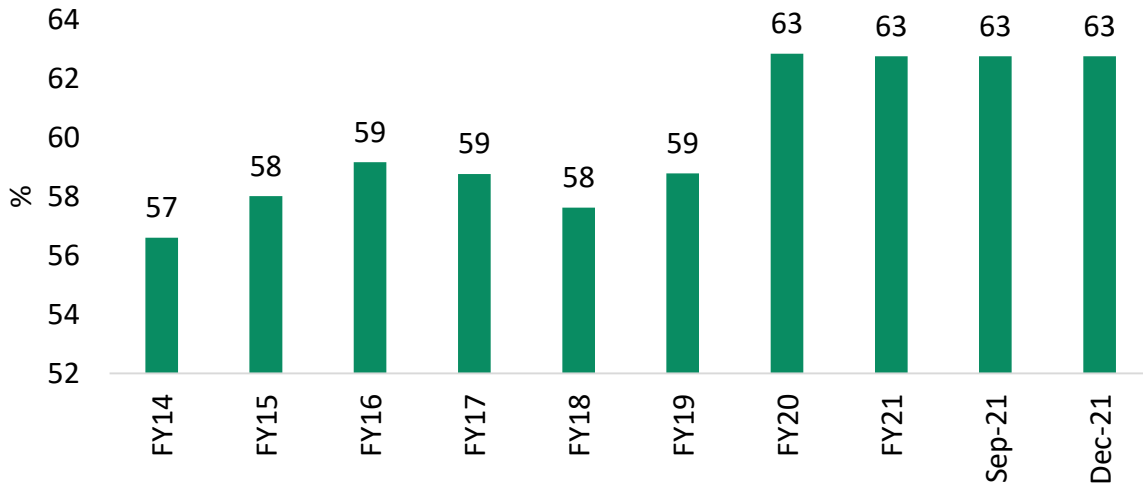
SSWL's financials are turning around...!



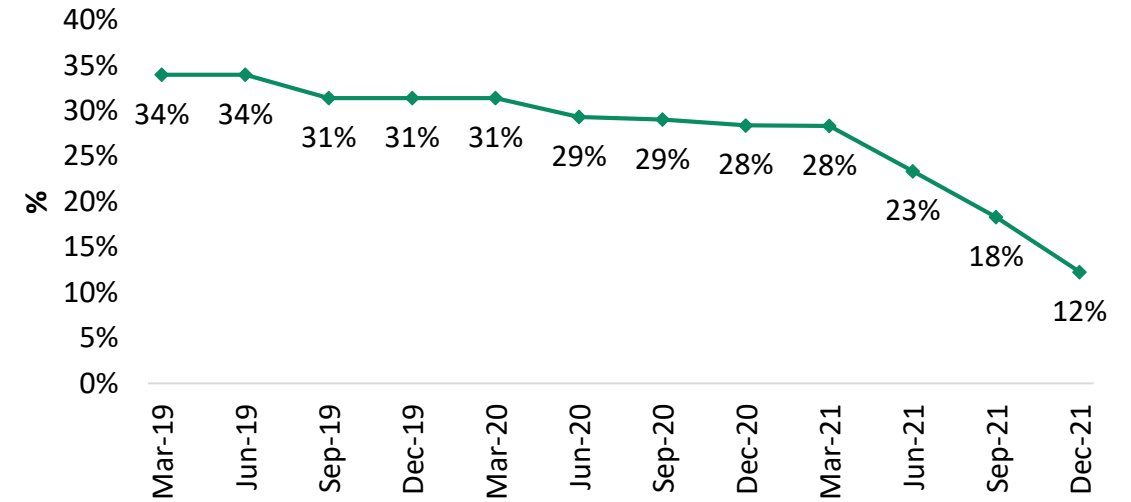
Corporate governance check

Increasing promoters shareholding and decreasing pledged shares...

Promoters holding increased from 57% in FY14 to 63% in FY20 & has been maintained at similar level till date

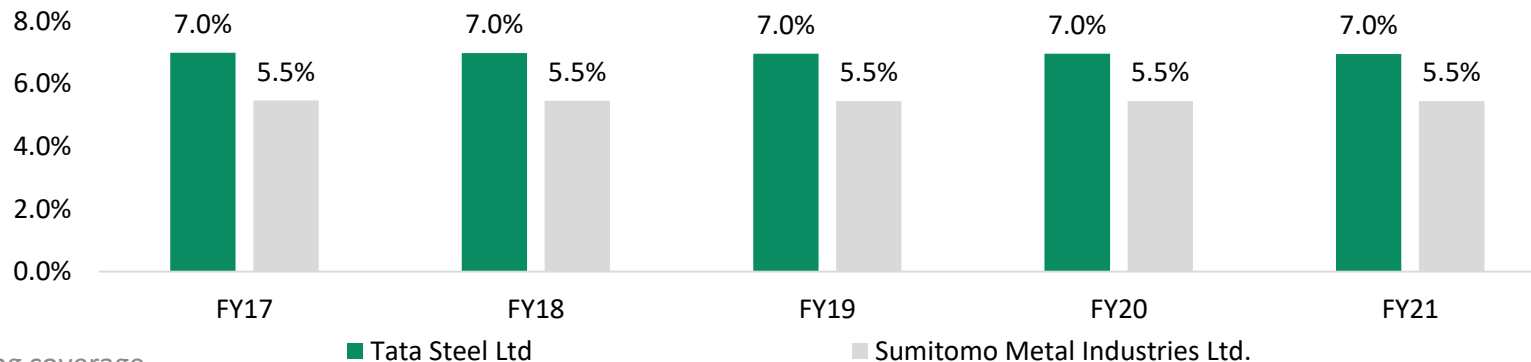


SSWL pledged shares are coming down... expect this trend to continue



- ✓ Although, there is no timelines to reduce pledge to zero, however by next 1-2 years it should be paid-off. Expect pledge to reduce further in FY23.
- ✓ Tata Steel has board presence in SSWL and they will never invest in any company where there is a corporate governance issue.

Quality investors have maintained their shareholding since last 5-6 years



Board composition and directors compensations



Board composition	FY17	FY18	FY19	FY20	FY21
Total Strength	10	10	12	15	13
Promoter Group Directors	2	2	2	2	2
Executive Directors	2	2	2	2	2
Non-Executive Directors	1	1	1	2	2
Independent Directors	5	5	7	9	7
% share of promoters	20.0%	20.0%	16.7%	13.3%	15.4%
% share of executive	20.0%	20.0%	16.7%	13.3%	15.4%
% share of non-executive	10.0%	10.0%	8.3%	13.3%	15.4%
% share of independent	50.0%	50.0%	58.3%	60.0%	53.8%

Independent directors have always been 50%+ in the past years. All its KMPs and directors are well qualified and possesses enrich experiences.

Absolute salary is reasonable as compared to any other listed auto ancillary companies. However, in percentage terms its looking higher due to low PBT.

Promoters compensation (Rs Mn)	FY17	FY18	FY19	FY20	FY21	FY17- FY21
Mr. Dheeraj Garg	54	52	57	17	43	223
% share of PBT	6.3%	5.3%	5.2%	5.2%	6.8%	5.7%

Independent directors and their compensation	FY21 compensation (Rs Mn)	As % of PBT (FY21)
Sh. Virander Kumar Arya	0.14	0.02%
Sh. Ajit Singh Chatha	0.12	0.02%
Sh. Shashi Bhushan Gupta	0.08	0.01%
Sh. Surinder Singh Viridi	0.08	0.01%
Smt. Deva Bharathi Reddy	0.08	0.01%
Sh. Siddharth Bansal	0.00	0.00%
Total	0.50	0.08%

The compensation is for the sitting fees paid for board meetings attended in FY21, which looks fine.

Contingent liabilities have seen a gradual reduction from 11.6% of net worth in FY19 to 9.7% of net worth in FY21. The details are as follows:



Contingent liabilities (Rs Mn)	FY19	FY20	FY21
Letter of Credit /Bank of Guarantee Outstanding for Import /Purchase of Raw materials, Spares and Plant and Machinery	240	78	92
Estimated amount of Contracts remaining to be executed on account of capital account and not provided for (net of advances)	549	767	632
Total	790	845	724
<i>%tage of Net worth</i>	<i>11.6%</i>	<i>12.1%</i>	<i>9.7%</i>

Rs 92Mn for FY21 represents regular operational LCs/BGs.

Rs 632Mn for FY21 represents Capital Contracts to be executed (Primarily Alloy Wheel Expansion project).

All transactions are related to operations of SSWL.

Related party transactions (Rs Mn)	FY19	FY20	FY21
Donation paid	7.2	6.7	5.2
Rent paid	3.4	3.6	3.2
Sitting fees	0.1	0.1	0.2
Remuneration incl. commission	77.2	31.9	58.8
Dividend paid	36.0	38.1	0.0
Total	124	80	67

CSR activities related spend.

Lease rent paid to SAB Industries Ltd.

Given to Board of Directors.

It's a part of salary given to MD, JMD, CS, ED & KMPs.

<i>Remuneration incl. commission as % of total</i>	<i>62%</i>	<i>40%</i>	<i>87%</i>
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We don't see any red flags in contingent liabilities and related party transactions.

Steel Strips Wheels has appointed M/s. AKR & Associates as their statutory auditor for FY21. **The auditors in their report for FY21 have given an unqualified opinion** on the fact that the company has given true and fair view in conformity with the accounting principles. In addition, the audit evidence obtained were sufficient and appropriate.

Auditor Name - M/s AKR & Associates	Type	Auditor Fees - (Rs mn)	As a % of PBT
Statutory Audit Fee	Statutory	0.7	0.11%
Tax Audit Fee		0.2	0.03%
Certificate charges		0.2	0.03%
Total		1.1	0.2%

Reason for spending lower than the prescribed expenditure in Covid affected years FY20 & FY21.

Some of CSR projects undertaken by the Company span over a couple of years instead of getting concluded within a financial year. The company has allocated funds to projects identified and any unspent amount is kept parked in a separate CSR unspent account with banks, to be utilized over next 3 years as per policy. (Cash Flow impact is already taken).

CSR spends (Rs Mn)	Prescribed expenditure	Actual spends	Spend as % of prescribed limit
FY17	11.2	11.3	100.6%
FY18	16.4	16.4	100.2%
FY19	19.4	19.4	100.3%
FY20	20.5	13.9	67.7%
FY21	15.9	4.9	30.9%

Peer comparison

Operationally SSWL is way ahead of Wheels India

Revenues (Rs Mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	9MFY22	CAGR (%)
SSWL	11,819	13,300	15,182	20,412	15,633	17,494	33,580	24,967	19%
YoY growth (%)		13%	14%	34%	-23%	12%	92%	138%	
Wheels India total revenue	19,872	21,729	25,626	34,413	26,716	24,134	37,050	27,788	11%
YoY growth (%)		9%	18%	34%	-22%	-10%	54%	87%	
Wheels India - Auto segment	-	-	-	31,335	21,736	20,148	30,227	22,671	-1%
YoY growth (%)					-31%	-7%	50%	95%	

Exports & alloy wheels supported SSWL to outperform the industry

Non-auto contributed to growth, which increased from 9% in FY19 to 18% in 9MFY22

Shrinking steel wheels industry, downcycle in CVs, offset by rise in export sales

EBITDA Margin (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22	Average
SSWL	12.3%	12.4%	13.2%	12.0%	11.0%	11.6%	13.7%	12.3%
Wheels India	8.7%	8.5%	7.8%	7.1%	6.4%	5.9%	6.6%	7.3%

Wheels India's margin has never touched double-digit figure in any year, while SSWL's margin is always in double-digit.

EBIT Margin (%)	FY19	FY20	FY21	9MFY22	Average
SSWL	9.0%	6.3%	7.5%	11.4%	8.6%
Wheels India - auto segment	4.9%	3.4%	1.0%	4.0%	3.3%

COGS (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22	Average
SSWL	59.3%	60.0%	59.5%	63.9%	61.8%	62.8%	60.6%	61.1%
Wheels India	65.1%	65.8%	68.2%	70.3%	69.6%	69.5%	72.4%	68.7%

SSWL has a clear competitive advantage

PAT (Rs Mn)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22	CAGR (%)
SSWL	611	557	751	824	234	493	1,566	17%
YoY growth (%)		-9%	35%	10%	-72%	110%	3238%	
Wheels India	411	592	501	765	491	18	483	3%
YoY growth (%)		44%	-15%	53%	-36%	-96%	-	

ROEs (%)	FY17	FY18	FY19	FY20	FY21	H1FY22	Average
SSWL	10.9	13.7	13.0	3.4	6.8	14.8	10.4
Wheels India	12.5	9.0	11.7	7.0	0.03	4.4	7.4

SSWL's debt started coming down, reverse is true for Wheels India



SSWL (Rs Mn)	FY17	FY18	FY19	FY20	FY21	H1FY22
Gross debt	8,603	10,200	9,876	10,011	9,372	8,534
Less cash	1,207	1,306	1,210	917	532	699
Net debt	7,396	8,895	8,666	9,094	8,840	7,835
D/E (x)	1.7	1.7	1.4	1.4	1.3	1.1
Net D/E (x)	1.4	1.5	1.3	1.3	1.2	1.0

Wheels India (Rs Mn)	FY17	FY18	FY19	FY20	FY21	H1FY22
Gross debt	3,691	3,586	4,948	6,400	6,770	8,849
Less cash	284	311	323	293	266	353
Net debt	3,407	3,275	4,625	6,107	6,504	8,496
D/E (x)	0.8	0.6	0.7	0.9	1.0	1.3
Net D/E (x)	0.7	0.5	0.7	0.9	1.0	1.3

- SSWL's turnaround in financials has led to reduction in debt levels in H1FY22. We believe debt to come down further in the coming years as cash flows generation are higher and there is no major capital expenditure planned.

- Wheels India's debt level inched up in H1FY22 due to combination of higher WC requirements possibly on account of higher receivable & inventory days in its non-auto business, increase in exports and commodity price increase.
- Lower utilization levels specially during Covid hit years and losses at its subsidiary level also resulted into increase in debt levels.
- Debt level is not expected to come down sharply due to high capex need of Rs 5bn FY22e-FY24e (part of which is debt funded).

SSWL is clearly winning in FCF generation



SSWL	FY17	FY18	FY19	FY20	FY21	H1FY22
OCF	1,211	2,331	1,837	1,039	1,691	1,744
Less Capex	-3,880	-3,370	-838	-801	-563	-1,019
FCF	-2,669	-1,038	1,000	237	1,129	725
FCF yield (%)	-30.5%	-7.1%	5.9%	2.0%	14.8%	3.1%

SSWL major expansion is over till January 2022, there won't be any major capex required due to sufficient capacity for the next few years. With better operating performance & no major capex in the coming years, FCF generation will be higher for the company.

Wheels India	FY17	FY18	FY19	FY20	FY21	H1FY22
OCF	1,552	1,311	1,835	1,838	1,482	-335
Less Capex	-795	-2,121	-2,409	-2,443	-1,198	-449
FCF	758	-811	-574	-605	284	-784
FCF yield (%)	5.3%	-4.1%	-2.4%	-3.8%	2.7%	-5.5%

Wheels India has high capital expenditure of Rs 5bn FY22e-FY24e (part of which is expected to be debt funded). In addition, there is a higher WC requirements in non-auto and exports segments.

Working capital comparison



Inventory days	FY17	FY18	FY19	FY20	FY21
SSWL	74	89	85	126	137
Wheels India	74	68	61	83	104

Receivable days	FY17	FY18	FY19	FY20	FY21
SSWL	51	62	45	47	49
Wheels India	66	65	57	72	92

Payable days	FY17	FY18	FY19	FY20	FY21
SSWL	63	96	82	89	104
Wheels India	101	95	86	113	153

Cash conversion cycle (days)	FY17	FY18	FY19	FY20	FY21
SSWL	62	56	48	84	82
Wheels India	39	38	32	43	44

Wheels India is a step ahead of SSWL in having lower working capital days.

Inventory days for both the companies increased due to Covid hit years and anticipation of rise in the input costs.

SSWL's inventory is little higher due to 1) its new business of alloy wheels, 2) substantial increase in exports and 3) there is specialized aluminum which is getting imported as per clients requirement.

SSWL has been able to receive money faster from its customers as compared to Wheels India. SSWL is able to pay faster to its suppliers, which is a good sign when it comes to credit rating.

SSWL aims to bring back its working capital days to normal level of FY19 in the coming years.

Valuation comparison – SSWL is trading at an eye-catching valuations



P/E (x)	FY17	FY18	FY19	FY20	FY21	9MFY22
SSWL	15.7	19.4	20.5	50.7	15.5	15.8
Wheels India	24.4	41.0	32.5	33.5	5,013	27.8

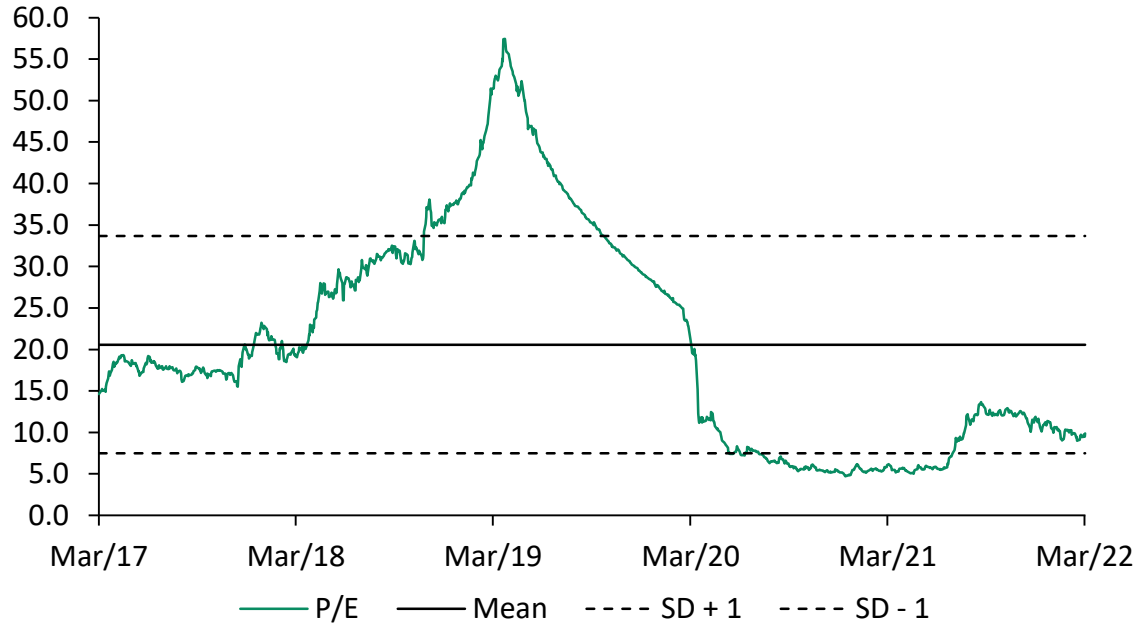
EV/EBITDA (x)	FY17	FY18	FY19	FY20	FY21	H1FY22
SSWL	9.8	11.7	10.4	12.3	8.1	13.9
Wheels India	9.5	11.6	11.7	12.8	11.9	19.4

Street estimates	RoE (%)				P/E (x)			
	FY21	FY22e	FY23e	FY24e	FY21	FY22e	FY23e	FY24e
Steel Strips Wheels Ltd	6.8%	23.6%	23.6%	24.2%	15.5	12.4	9.9	7.7
Suprajit Engineering Ltd	15.5%	15.8%	19.5%	20.1%	31.1	26.2	18.9	15.6
Asahi India Glass Ltd	9.7%	18.3%	18.5%	18.2%	76.9	35.2	28.6	24.8
Minda Industries Ltd	10.0%	12.6%	18.3%	20.4%	129.8	81.2	45.7	34.0
Jamna Auto Industries Ltd	13.3%	20.8%	25.5%	26.9%	80.2	32.0	22.5	18.1
JTEKT India Ltd	2.0%	7.4%	11.8%	13.3%	151.7	38.3	20.8	15.8
Subros Ltd	6.1%	5.0%	11.5%	14.0%	47.6	53.7	24.5	17.8

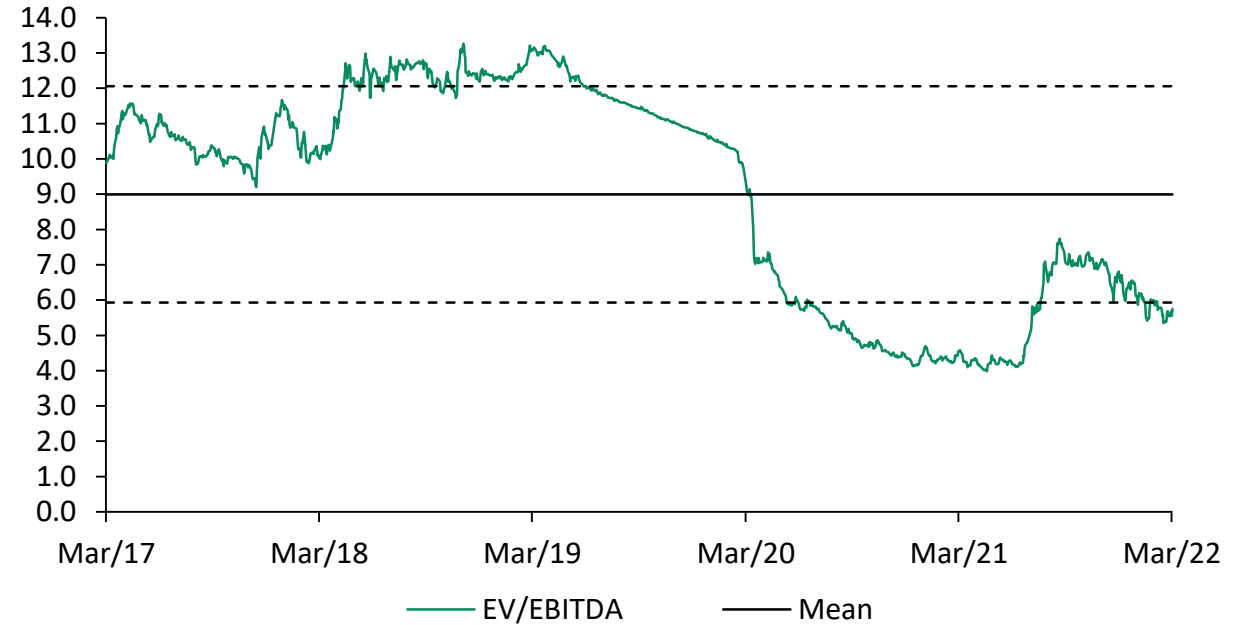
Steel Strips Wheels RoE is one of the best among auto ancillary companies and the stock is trading at the lowest P/E.

Key risks, outlook & valuations

Band charts



1-year forward P/E



1-year forward EV/EBITDA

Outlook: The combination of 1) increasing alloy wheels sales, 2) higher exports, 3) the uptick in the CV cycle, & 4) no major capital expenditure will turn around its financials with increased margin, better return ratios, higher FCF generation and reduction in debt levels. In addition, the company started getting orders from e2Ws, which is a big value addition.

Inexpensive valuations: SSWL is a turn-around bet and is trading attractively at 9.9x FY23e EPS and 7.7x FY24e EPS. On EV/EBITDA, its trading at 5.8x FY23e and 4.4x FY24e EBITDA. **We have valued the company by assigning multiple of 5.5x to FY24e EBITDA of Rs 6,199mn to arrive at a target price of Rs 1,141 apiece, seeking an upside of 44% from the current level.** We strongly believe that the company has much more potential.

Key risks

1) Delay in the CV recovery and continued shortage of semiconductors might impact volumes, thus in turn will affect debt reduction ability. However, at the moment the situation looks promising with improvement in chip supplies and demand momentum remain firm as per our checks.

2) Delay in getting clients for alloy wheels in export & domestic market could slowdown improvement in overall financials. However, SSWL already have PV leaders on its client board & have strong relationships with major ones in India & International markets. They have proven its quality at competitive costs, hence adding a new client won't be much of a challenge for SSWL.

3) Increase in the competition from global players in steel/alloy wheels may put pressure on margins. But, the giant capacity of SSWL, which has been making products at India cost & quality of international standards, along with strong clientele relationships makes it a formidable player in wheels. That's the reason why luxury global car makers buys from SSWL. The competition is already there, however what will be the differential factor is the technology, turnaround time along with quality. All these are keeping SSWL ahead of the competitors.

4) Improvement in the US-China relationships & reduction in imposed duties on Chinese manufacturers. Here, tariffs from Trump to Biden administration continued on Chinese wheel makers. So far, duties are imposed till 2024. Also, global OEMs have already adopted additional supplier policy other than China. SSWL has benefited from it and is in further talks with major OEMs to sign long term contracts with the company.

Financial statements

Profit and loss statement



Y/E March (Rs Mn)	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Revenues	13,300	15,182	20,412	15,633	17,494	33,580	38,392	44,287
% Growth	13.0	14.2	34.4	(23.4)	11.9	91.9	14.3	15.4
Raw Materials	7,976	9,037	13,039	9,663	10,991	20,224	23,122	26,672
% of sales	60.0	59.5	63.9	61.8	62.8	60.2	60.2	60.2
Personnel	1,186	1,364	1,883	1,561	1,529	2,113	2,358	2,698
% of sales	8.9	9.0	9.2	10.0	8.7	6.3	6.1	6.1
Manufacturing & Other Expenses	2,490	2,778	3,032	2,697	2,936	6,778	7,653	8,718
% of sales	18.7	18.3	14.9	17.3	16.8	20.2	19.9	19.7
EBITDA	1,648	2,002	2,459	1,712	2,038	4,465	5,259	6,199
EBITDA Margin (%)	12.4	13.2	12.0	11.0	11.6	13.3	13.7	14.0
Depreciation & Amortization	479	526	619	719	723	776	797	809
EBIT	1,169	1,477	1,840	993	1,314	3,689	4,461	5,390
Finance cost	506	639	925	887	839	881	787	646
PBT From Operations	664	837	914	106	475	2,808	3,674	4,744
Other Income	184	134	175	221	163	104	154	176
PBT	848	972	1,089	327	638	2,912	3,829	4,920
Tax	302	220	265	93	146	916	1,340	1,722
Tax Rate (%)	35.7	22.6	24.4	28.3	22.8	31.5	35.0	35.0
Reported (Net) PAT from contnuing operations	546	752	824	234	493	1,996	2,489	3,198
PAT Margin	4.1	5.0	4.0	1.5	2.8	5.9	6.5	7.2
Extraordinary items – Adjusted	(11)	1	0	0	0	-	-	-
Adjusted PAT	557	751	824	234	493	1,996	2,489	3,198
Adj. PAT Margin	4.2	4.9	4.0	1.5	2.8	5.9	6.5	7.2
% Growth	(9.0)	34.9	9.7	(71.5)	110.0	305.3	24.7	28.5

Balance sheet



Y/E March (Rs Mn)	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Sources of funds								
Capital	155	156	156	156	156	156	156	156
Share application money pending allotment	-	-	218	-	-	-	-	-
Reserves & Surplus	4,965	5,687	6,443	6,824	7,337	9,233	11,572	14,514
Shareholders' Funds	5,120	5,843	6,817	6,979	7,493	9,389	11,728	14,671
Total Loan Funds	8,603	10,200	9,876	10,011	9,372	8,372	6,872	4,372
Deferred tax liabilities	881	1,061	1,257	1,535	1,637	1,679	1,728	1,771
Long Term Provisions	114	120	133	137	115	179	184	198
Other non-current liabilities	820	240	623	817	801	806	845	886
Total Liabilities	15,539	17,465	18,705	19,480	19,419	20,425	21,357	21,899
Application of funds								
Gross Block	11,635	14,958	18,556	19,044	19,226	20,633	21,189	21,496
Accumulated Dep.	4,186	4,664	5,264	5,978	6,635	7,411	8,208	9,017
Net Block	7,448	10,294	13,292	13,065	12,592	13,222	12,981	12,479
Capital WIP	3,517	3,232	528	855	1,093	264	259	249
Net Assets	10,965	13,526	13,820	13,920	13,685	13,486	13,240	12,728
Investments	2	2	2	2	2	2	2	2
Non-Current Loans	45	66	100	103	114	114	114	114
Non-Current Other Financial Assets	77	85	71	90	91	91	91	91
Other Non-Current Assets	179	14	14	13	367	156	184	217
Other non current assets	301	164	185	206	572	361	389	422
Inventories	1,770	2,659	3,381	3,293	4,965	6,095	6,335	6,796
Sundry Debtors	2,046	3,129	1,940	2,098	2,571	4,481	5,123	5,910
Cash and cash equivalent	501	336	362	315	279	210	623	817
Bank balances other than above	707	970	848	602	253	191	564	739
Loans and Advances	97	55	28	30	28	28	28	28
Current tax assets (net)	-	-	-	25	23	23	23	23
Other current financial assets	37	4	18	15	5	5	5	5
Other current Assets	892	915	950	1,284	1,384	1,384	1,384	1,384
Total Current Assets	6,049	8,068	7,527	7,663	9,508	12,418	14,086	15,703
Sundry Creditors	1,492	3,254	2,573	2,136	4,122	5,541	6,018	6,577
Current tax liability	17	18	14	-	-	100	100	100
Other Current Liabilities	258	1,010	218	148	160	143	179	210
Provisions	11	13	23	27	66	58	63	68
Total Current Liabilities	1,779	4,295	2,829	2,311	4,349	5,841	6,360	6,955
Net Current Assets	4,270	3,773	4,698	5,352	5,160	6,576	7,726	8,747
Total Assets	15,539	17,465	18,705	19,480	19,419	20,425	21,357	21,899

Cash flow statement



Y/E March (Rs Mn)	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Operating profit before WC changes	1,698	2,106	2,568	1,847	2,084	4,465	5,259	6,199
Net chg in working capital	(285)	446	(465)	(715)	(247)	(398)	(294)	(576)
Income tax paid	(201)	(220)	(265)	(93)	(146)	(916)	(1,340)	(1,722)
Cash flow from operating activities (a)	1,211	2,331	1,837	1,039	1,691	3,152	3,624	3,901
Capital expenditure	(3,880)	(3,370)	(838)	(801)	(563)	(1,400)	(550)	(300)
Free Cash Flow	(2,669)	(1,038)	1,000	237	1,129	1,752	3,074	3,601
Cash flow from investing activities (b)	(3,751)	(2,993)	(805)	(693)	(371)	(1,302)	(402)	(130)
Cash flow from financing activities (c)	2,529	760	(1,129)	(639)	(1,706)	(1,981)	(2,436)	(3,402)
Net chg in cash (a+b+c)	(11)	99	(96)	(293)	(385)	(131)	786	369

Ratios



Y/E March	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Growth Ratios (%)								
Net Sales	13.0	14.2	34.4	(23.4)	11.9	91.9	14.3	15.4
EBITDA	13.7	21.5	22.8	(30.4)	19.0	119.1	17.8	17.9
Net Profit	(10.6)	37.8	9.5	(71.5)	110.0	305.2	24.7	28.5
Margin Ratio (%)								
EBITDA Margin	12.4	13.2	12.0	11.0	11.6	13.3	13.7	14.0
EBIT Margin	8.8	9.7	9.0	6.3	7.5	11.0	11.6	12.2
PBT margins	6.4	6.4	5.3	2.1	3.6	8.7	10.0	11.1
Adj. PAT Margin	4.2	4.9	4.0	1.5	2.8	5.9	6.5	7.2
Return Ratios								
ROE	10.9	13.7	13.0	3.4	6.8	23.6	23.6	24.2
ROCE	6.3	8.4	9.3	5.2	6.7	15.0	16.5	19.4
ROIC	5.6	7.8	8.6	4.1	5.7	13.7	15.2	18.2
Turnover ratios (days)								
Gross Block Turnover (x)	1.1	1.1	1.2	0.8	0.9	1.7	1.8	2.0
Inventory	74	89	85	126	137	110	100	93
Debtors	51	62	45	47	49	49	49	49
Creditors	63	96	82	89	104	100	95	90
Cash Conversion Cycle	62	56	48	84	82	59	54	52
Solvency ratio (x)								
Debt-equity	1.7	1.7	1.4	1.4	1.3	0.9	0.6	0.3
Net Debt-Equity	1.4	1.5	1.3	1.3	1.2	0.8	0.5	0.2
Gross Debt/EBITDA	5.2	5.1	4.0	5.8	4.6	1.9	1.3	0.7
Current ratio	3.4	1.9	2.7	3.3	2.2	2.1	2.2	2.3
Interest coverage ratio	2	2	2	1	2	4	6	8
Dividend								
Adj. DPS (Rs.)	0.9	1.8	2.4	2.4	-	3.2	4.8	8.2
Dividend yield (%)	0.1	0.2	0.3	0.3	-	0.4	0.6	1.0
Dividend payout (%)	5.0	7.5	9.1	32.1	-	5.0	6.0	8.0
Per share (Rs.)								
Adj Basic EPS (reported)	18	24	26	8	16	64.0	80	102
Adj. CEPS	33	41	46	31	39	89	105	128
Adj. BV	165	188	219	224	240	301	376	470
Valuation								
P/E	15.7	19.4	20.5	50.7	15.5	12.4	9.9	7.7
P/BV	1.7	2.5	2.5	1.7	1.0	2.6	2.1	1.7
EV/EBITDA	9.8	11.7	10.4	12.3	8.1	7.3	5.8	4.4
EV/Sales	1.2	1.5	1.3	1.3	0.9	1.0	0.8	0.6

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC),

Bandra East, Mumbai – 400051

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: (D) +91 33 6634 5408, (B) +91 33 40115400

Email Id: smifs.institutional@smifs.com