



# Steel Strips Wheels Ltd

Financials turned around, mix is getting favourable & market share gains are visible

Q4FY22 was below expectations majorly on account of near complete RM pass-through (happens without margins) & Rs 60mn one-off in employee cost for Chennai workers wage settlement. **On an annual basis, SSWL reported exceptional all around performance with high growth in Revenue (+104%) / PAT (+317%) & margins improved (+107bps).** Its mix has tilted towards high margin alloy wheels (23% of the total value), domestic CV (23%) and exports (27%), hence FY22 EBITDA margin jumped higher by 107bps to 12.7%. It paid 32% of its long-term debt, FCF more than doubled & RoE improved substantially to ~24% (vs. ~7% in FY21). Healthy outlook guided by the management, of double-digit growth in volumes driven by alloys & domestic CV. With no major capex planned, FCF generation will be good, which will get used in pre-paying its long-term debt. **The company of high return profile, aggressive growth plans ahead is trading at an extremely attractive valuation. Strongly recommend BUY!**

### Gaining share in high margin alloy wheels business and clear beneficiary of CV upcycle

- SSWL has pioneered the LPDC technology, which is gaining traction among domestic OEMs. This quality product along with ease of cross-selling alloys to its existing customers has yielded in **faster gaining of market share (calculated) from just ~3% in FY19 to ~27% in FY22.**
- It's getting good orders in domestic, and will start alloy wheels exports in FY23. Hence, increasing the capacity from 3.0mn wheels annually to ~3.8mn (just by doing de-bottlenecking).
- With the improvement in the CV cycle, SSWL is a clear beneficiary as it has more than 50% market share in domestic MHCV wheels.**

### Financials turned around, the journey will continue

- Revenues tilted towards healthy margin business segments viz. exports (27% of the total product value in FY22), domestic CV (23%) & alloy wheels (23%), which improved EBITDA margin by 107bps to 12.7% in FY22.
- Despite higher capex, FCF more than doubled, which was utilized to repay & pre-pay its long-term debt (-32%).** RoEs reached at respectable levels of ~24% in FY22 vs. 7% in FY21. Expect this journey to continue as there is no major capex lined-up and high margin mix would continue to get better.

### Attractive valuation and a clear re-rating candidate

- SSWL RoE improved substantially to ~24% (vs. ~7% in FY21) and is trading attractively at 7.6x FY24e EPS and 4.3x FY24e EBITDA. The company is a clear re-rating candidate due to aggressive growth plans ahead, mix is trending towards high margin business and a superior return profile.
- We have valued the company by assigning EV/EBITDA multiple of 5.5x to FY24e EBITDA of Rs 5,978mn to arrive at a target price of Rs 1,000 per share. The potential is much higher. Recommend BUY!**

Y/E Mar (Rs Mn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	Q4 FY22e	Var. (%)
<b>Total Income</b>	<b>10,633</b>	<b>6,999</b>	<b>51.9</b>	<b>8,605</b>	<b>23.6</b>	<b>10,305</b>	<b>3.2</b>
Gross margin (%)	36.5	35.2	134 bps	40.8	(425) bps		-
<b>EBITDA</b>	<b>1,114</b>	<b>861</b>	<b>29.4</b>	<b>1,066</b>	<b>4.4</b>	<b>1,279</b>	<b>(13.0)</b>
EBITDA margin (%)	10.5	12.3	(183) bps	12.4	(192) bps	12.4	(194) bps
Other income	55	65	(15.5)	17	223.3		-
<b>PBT</b>	<b>784</b>	<b>541</b>	<b>45.0</b>	<b>656</b>	<b>19.6</b>		-
Taxes paid	295	95	209.8	229	29.0		-
Effective tax rate (%)	37.7	17.6	2,004 bps	34.9	275 bps		-
<b>Reported PAT</b>	<b>489</b>	<b>446</b>	<b>9.7</b>	<b>427</b>	<b>14.5</b>	<b>579</b>	<b>(15.6)</b>
PAT margin (%)	4.6	6.4	(177) bps	5.0	(36) bps	5.6	(102) bps

Source: Company, SMIFS institutional 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
FY22	35,600	103.5	4,528	12.7%	2,055	317.2	66	24.2	15.4	10.6	6.4
FY23e	42,000	18.0	5,048	12.0%	2,373	15.5	75	22.3	16.3	10.1	5.7
FY24e	48,529	15.5	5,978	12.3%	3,135	32.1	100	23.8	19.4	7.6	4.3

Source: Company, SMIFS institutional research estimates

Rating: **Buy** Upside/(Downside): **31.0%**  
 Current Price: **766** Target Price: **1,000**

#### Earlier recommendation

Previous Rating: Buy  
 Previous Target Price: 1,141

#### Market data

Bloomberg:	SSW: IN
52-week H/L (Rs):	995/361
Mcap (Rs bn/USD bn):	23.9/0.3
Shares outstanding (mn):	31.2
Free float:	20.0%
Daily vol. (3M Avg):	68,470
Face Value (Rs):	5.0
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS institutional research

#### Shareholding pattern (%)

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	62.8%	62.8%	62.8%	62.8%
FIIs	0.1%	0.1%	0.3%	0.8%
DIIIs	0.4%	0.4%	0.3%	0.4%
Public/others	36.7%	36.7%	36.6%	36.0%

Source: BSE

#### Price performance (%) \*

	1M	3M	12M	36M
BSE SmallCap	-11%	-6%	17%	90%
SSWL	-13%	-2%	111%	93%

\* As on 17<sup>th</sup> May 2022; Source: AceEquity, SMIFS research

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## Q4FY22 – Key takeaways from the management call

### Alloy wheels

- ✓ Increased market share to above 30% in domestic, utilization reached at 68-69%. Expect alloy wheels to be the key driver in FY23 with 30%+ growth anticipated.
- ✓ The market share will further increase in alloy wheels and SSWL will be the dominant player in it. Expect Maruti Suzuki to come on board by the end of FY23.
- ✓ The capacity will increase from 3.0mn wheels to ~3.80mn wheels p.a. in FY23. The work on that expansion has already started.
- ✓ Capex for alloy wheels expansion is Rs 600-800mn. This capacity addition will add Rs 3-4bn in the topline.
- ✓ SSWL is also working on newer technologies on alloys, which will be beneficial for the company as well as customers.

### Exports

- ✓ Supply issues with OEMs impacted export volumes in Q4FY22. When the supply situation was getting better, China lockdown disrupted supply chain for OEMs.
- ✓ Export clients have 1.5 months of inventory with them, which will get finished by June end. Export volumes to pick up from Q2FY23.
- ✓ The demand in the US and the EU is reasonably good.
- ✓ The incremental revenue in exports will come from alloy wheels. Started dispatches of alloys to the US and EU clients. The next 1-2 years theme for export growth is the alloy wheels.
- ✓ Anticipate Rs 700-900mn alloy revenues to come from exports and will report good growth in the coming years.
- ✓ The competition in exports for alloy wheels is with China, Thailand, Malaysia and African countries. China has an advantage of cheaper aluminum. SSWL will continue to benefit due to China+1 strategy.
- ✓ The company makes about 14% margin in alloy exports, which is at a respectable level.
- ✓ The total market size of wheels in international countries is 300+ million wheels. SSWL exported about 5.5mn wheels in FY22, which has grown substantially from 3.1mn in FY21. Expect growth momentum to continue in the coming years.

### Margin

- ✓ Q1FY22 to Q3FY22 – there was inventory gains (Rs 650-700mn), so margins were higher. Q4FY22 margin came-in poor due to complete pass-on of input cost, which inflated the revenue.
- ✓ Anticipate atleast 11.5% margin in FY23 as expect commodities to gradually inch-up. Although absolute EBITDA will keep on increasing, but the margin will look dull. If commodities fall, then margin level will be 13%+.

### Capex outlook

- ✓ There is no large capex required in steel wheels as the company has sufficient capacity for the next few years. Expect Rs 250-300mn maintenance capex for FY23.
- ✓ Increasing capacity in alloy wheels from 3.0mn wheels per annum to ~3.8mn wheels. It will require capex of Rs 650mn plus general maintenance capex of Rs 250mn.
- ✓ Total capex in FY23e will be Rs 900mn.
- ✓ In case, SSWL gets the final approval for AMW's acquisition that would require additional capital expenditure.

### Debt outlook

- ✓ Rs 1.0bn is the normal repayment schedule in FY23. If AMW doesn't come in FY23, that money along with higher CF generation will be used to pre-pay debt of Rs 1.3bn, which totals FY23 debt repayment of Rs 2.3bn.
- ✓ Good cash flow generation will continue in FY23, which will help in prepaying the debt.
- ✓ Rs 900mn is the debt repayment schedule in FY24e.
- ✓ Debt prepaid in March 2022 month, hence the benefits on finance cost will be visible in FY23.

### FY23 outlook

- ✓ Anticipating 2mn increase in the total volumes in FY23 (+11% growth). 0.2mn volume increase expected in 2Ws, 0.8mn in 4Ws, 0.15mn in tractors, 0.6mn in alloy wheels and 0.2mn in exports.
- ✓ The major growth driver will be alloy wheels in domestic & exports, and CV steel wheels.
- ✓ Revenue Rs 42-43bn (assuming stable RM prices) with a margin of 11.5%. The lower margin is due to RMC increase pass-on.
- ✓ With the existing 23mn wheels capacity, SSWL's max revenue will be Rs 55-60bn, AMW assets will add Rs 6bn more and additional alloy wheels capacity will add Rs 4bn.

### Other highlights

- ✓ Pledged shares as a percentage of outstanding shares have come down from 28% in March 2021 to about 12% in March 2022. Expect 5-7% further reduction in FY23 and aims to wipe-off complete pledge shares by FY24.
- ✓ Plant wise capacity utilization: Dappar 79%, Chennai car 83%, Chennai truck 71%, Jamshedpur 61% and Mehsana 65% at 3mn capacity.

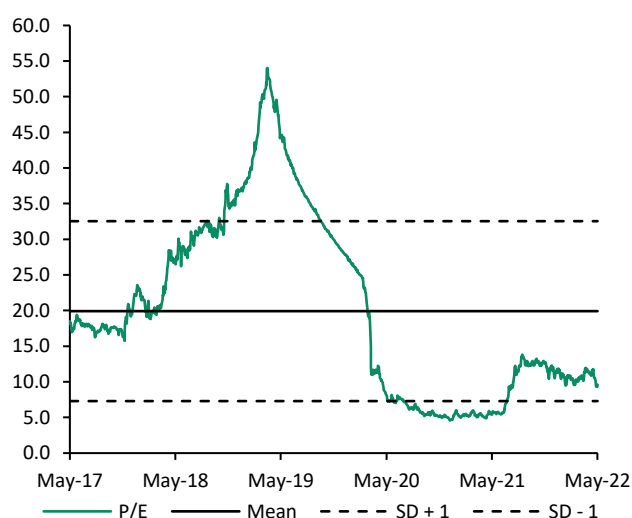
## Outlook and Valuations

- ✓ Q4FY22 was below expectations majorly on account of near complete RM pass-through (happens without margins) & Rs 60mn one-off in employee cost for Chennai workers wage settlement.
- ✓ On an annual basis, SSWL reported exceptional all around performance with high growth in Revenue (+104%) / PAT (+317%) & margins improved (+107bps). Its mix has tilted towards high margin alloy wheels (23% of the total value), domestic CV (23%) and exports (27%), hence FY22 EBITDA margin jumped higher by 107bps to 12.7%. It paid 32% of its long-term debt, FCF more than doubled & calculated RoE improved substantially to ~24% (vs. ~7% in FY21).
- ✓ Healthy outlook provided of double-digit growth in volumes driven by alloys & domestic CV. With no major capex planned, FCF generation will be good, which will get used in pre-paying its long-term debt. The company of high return profile, aggressive growth plans ahead is trading at an extremely attractive valuation. Strongly recommend BUY!

SSWL RoE improved substantially to ~24% (vs. ~7% in FY21) and is trading attractively at 7.6x FY24e EPS and 4.3x FY24e EBITDA. The company is a clear re-rating candidate due to aggressive growth plans ahead, mix is trending towards high margin business and a superior return profile.

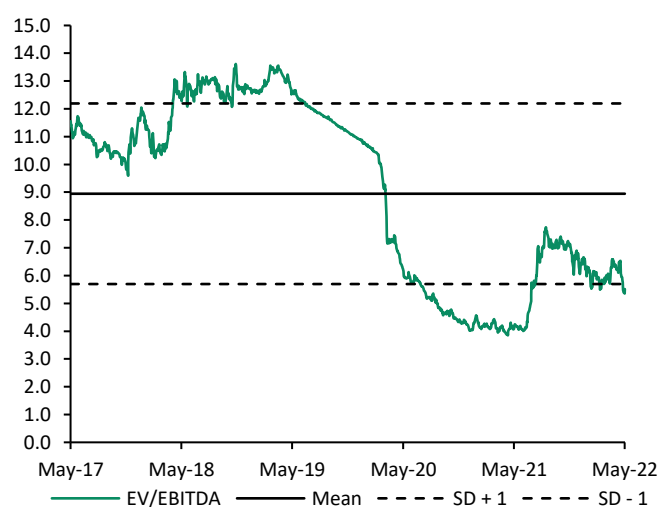
**We have valued the company by assigning EV/EBITDA multiple of 5.5x to FY24e EBITDA of Rs 5,978mn to arrive at a target price of Rs 1,000 per share. Recommend BUY!**

**Fig 1: 1-year forward P/E**



Source: AceEquity, SMIFS institutional research

**Fig 2: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS institutional research

## Quarterly financials, operating metrics & key performance indicators

**Fig 3: Quarterly Financials**

Y/E March (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Sales</b>	<b>1,203</b>	<b>4,047</b>	<b>5,245</b>	<b>6,999</b>	<b>6,781</b>	<b>9,580</b>	<b>8,605</b>	<b>10,633</b>
Raw Materials	757	2,533	3,164	4,536	4,319	5,707	5,096	6,749
Employee Costs	176	290	488	574	474	521	555	637
Other Expenditure	246	725	938	1,027	1,010	1,982	1,888	2,133
<b>EBITDA</b>	<b>23</b>	<b>498</b>	<b>655</b>	<b>861</b>	<b>978</b>	<b>1,370</b>	<b>1,066</b>	<b>1,114</b>
Depreciation	174	179	179	192	176	201	202	189
Interest	226	216	204	193	197	237	225	195
Other Income	9	52	38	65	23	36	17	55
<b>PBT</b>	<b>-368</b>	<b>155</b>	<b>310</b>	<b>541</b>	<b>627</b>	<b>968</b>	<b>656</b>	<b>784</b>
Tax	13	15	22	95	117	340	229	295
Tax rate (%)	-3.6%	9.4%	7.2%	17.6%	18.6%	35.1%	34.9%	37.7%
<b>Reported PAT</b>	<b>-381</b>	<b>140</b>	<b>288</b>	<b>446</b>	<b>511</b>	<b>628</b>	<b>427</b>	<b>489</b>
<b>YoY Growth (%)</b>								
Revenue	-74.4	11.8	52.7	80.8	463.9	136.7	64.1	51.9
EBITDA	-95.8	20.3	53.5	174.0	4,081.2	175.2	62.7	29.4
Reported PAT	NA	82.4	357.0	NA	NA	347.8	48.5	9.7
<b>QoQ Growth (%)</b>								
Revenue	(68.9)	236.5	29.6	33.4	(3.1)	41.3	(10.2)	23.6
EBITDA	(92.6)	NA	31.6	31.4	13.6	40.2	(22.2)	4.4
Reported PAT	NA	NA	105.1	54.9	14.6	22.9	(32.0)	14.5
<b>Margin (%)</b>								
RMC/revenue (%)	63.0	62.6	60.3	64.8	63.7	59.6	59.2	63.5
Gross margin (%)	37.0	37.4	39.7	35.2	36.3	40.4	40.8	36.5
Employee cost/revenue (%)	14.7	7.2	9.3	8.2	7.0	5.4	6.4	6.0
Other expenses/revenue (%)	20.4	17.9	17.9	14.7	14.9	20.7	21.9	20.1
EBITDA margin (%)	1.9	12.3	12.5	12.3	14.4	14.3	12.4	10.5
PAT margin (%)	(31.7)	3.5	5.5	6.4	7.5	6.6	5.0	4.6

Source: Company, SMIFS institutional research

**Fig 4: Key Assumptions**

Operating metrics	FY19	FY20	FY21	FY22	FY23e	FY24e
<b>Volumes (Mn units)</b>	<b>15.9</b>	<b>14.0</b>	<b>13.4</b>	<b>17.9</b>	<b>19.9</b>	<b>21.8</b>
<i>Growth (%)</i>	<i>10</i>	<i>-12</i>	<i>-4</i>	<i>34</i>	<i>11</i>	<i>9</i>
<b>Realization/unit (Rs)</b>	<b>1,022</b>	<b>1,191</b>	<b>1,732</b>	<b>1,906</b>	<b>2,028</b>	<b>2,098</b>
<i>Growth (%)</i>	<i>20</i>	<i>-12</i>	<i>17</i>	<i>45</i>	<i>10</i>	<i>6</i>

Source: Company, SMIFS institutional research estimates

## Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenues</b>	<b>15,633</b>	<b>17,494</b>	<b>35,600</b>	<b>42,000</b>	<b>48,529</b>
% Growth	(23.4)	11.9	103.5	18.0	15.5
Raw Materials	9,663	10,991	21,871	26,182	30,252
% of sales	61.8	62.8	61.4	62.3	62.3
Personnel	1,561	1,529	2,187	2,538	2,884
% of sales	10.0	8.7	6.1	6.0	5.9
Manufacturing Exps	2,697	2,936	7,014	8,233	9,415
% of sales	17.3	16.8	19.7	19.6	19.4
<b>EBITDA</b>	<b>1,712</b>	<b>2,038</b>	<b>4,528</b>	<b>5,048</b>	<b>5,978</b>
EBITDA Margin (%)	11.0	11.6	12.7	12.0	12.3
Depreciation & Amortization	719	723	769	820	832
<b>EBIT</b>	<b>993</b>	<b>1,314</b>	<b>3,759</b>	<b>4,228</b>	<b>5,147</b>
Finance cost	887	839	854	709	527
<b>PBT From Operations</b>	<b>106</b>	<b>475</b>	<b>2,905</b>	<b>3,519</b>	<b>4,620</b>
Other Income	221	163	130	131	204
<b>PBT</b>	<b>327</b>	<b>638</b>	<b>3,035</b>	<b>3,651</b>	<b>4,824</b>
Tax	93	146	981	1,278	1,688
Tax Rate (%)	28.3	22.8	32.3	35.0	35.0
<b>PAT</b>	<b>234</b>	<b>493</b>	<b>2,055</b>	<b>2,373</b>	<b>3,135</b>
PAT Margin	1.5	2.8	5.8	5.6	6.5

Source: Company, SMIFS institutional research estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23e	FY24e
<b>Growth Ratios (%)</b>					
Net Sales	(23.4)	11.9	103.5	18.0	15.5
EBITDA	(30.4)	19.0	122.2	11.5	18.4
Net Profit	(71.5)	110.0	317.2	15.5	32.1
<b>Margin Ratio (%)</b>					
EBITDA Margin	11.0	11.6	12.7	12.0	12.3
EBIT Margin	6.3	7.5	10.6	10.1	10.6
PBT margins	2.1	3.6	8.5	8.7	9.9
Adj. PAT Margin	1.5	2.8	5.8	5.6	6.5
<b>Return Ratios</b>					
ROE	3.4	6.8	24.2	22.3	23.8
ROCE	5.2	6.7	15.4	16.3	19.4
ROIC	4.1	5.7	14.0	15.0	18.3
<b>Turnover Ratios (days)</b>					
Gross Block Turnover (x)	0.8	0.9	1.8	2.0	2.2
Inventory	126	137	95	95	95
Debtors	47	49	33	33	33
Creditors	89	104	89	89	89
Cash Conversion Cycle	84	82	39	39	39
<b>Solvency ratio (x)</b>					
Debt-equity	1.4	1.3	0.8	0.5	0.3
Net Debt-Equity	1.3	1.2	0.8	0.4	0.1
Gross Debt/EBITDA	5.8	4.6	1.7	1.1	0.7
Current ratio	3.3	2.2	1.7	1.9	2.0
Interest coverage ratio	1.1	1.6	4.4	6.0	9.8
<b>Dividend</b>					
Adj. DPS (Rs.)	2.4	-	1.0	4.6	8.0
Dividend Yeild (%)	0.3	-	0.1	0.6	1.0
Dividend Payout (%)	32.1	-	1.5	6.1	8.1
<b>Per share (Rs.)</b>					
Adj Basic EPS (reported)	8	16	66	75	100
Adj. CEPS	31	39	90	102	127
Adj. BV	224	240	305	376	469
<b>Valuation</b>					
P/E	50.7	15.5	10.6	10.1	7.6
P/BV	1.7	1.0	2.3	2.0	1.6
EV/EBITDA	12.3	8.1	6.4	5.7	4.3
EV/Sales	1.3	0.9	0.8	0.7	0.5

Source: Company, SMIFS institutional research estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Sources of funds</b>					
Capital	156	156	156	156	156
Share application money pending allotment	-	-	-	-	-
Reserves & Surplus	6,824	7,337	9,362	11,593	14,477
<b>Shareholders' Funds</b>	<b>6,979</b>	<b>7,493</b>	<b>9,518</b>	<b>11,749</b>	<b>14,634</b>
<b>Total Loan Funds</b>	<b>10,011</b>	<b>9,372</b>	<b>7,779</b>	<b>5,779</b>	<b>4,029</b>
Deffered tax liabilities	1,535	1,637	1,706	1,890	1,941
Long term provisions	137	115	235	177	191
Other non-current liabilities	817	801	751	840	971
<b>Total Liabilities</b>	<b>19,480</b>	<b>19,419</b>	<b>19,989</b>	<b>20,435</b>	<b>21,766</b>
<b>Application of funds</b>					
Gross Block	19,044	19,226	20,882	21,789	22,095
Accumulated Dep.	5,978	6,635	7,286	8,106	8,937
Net Block	13,065	12,592	13,596	13,683	13,158
Capital WIP	855	1,093	969	273	263
<b>Net Assets</b>	<b>13,920</b>	<b>13,685</b>	<b>14,566</b>	<b>13,956</b>	<b>13,421</b>
<b>Investments</b>					
Non-current loans	103	114	222	222	222
Non-current other financial assets	90	91	79	79	79
Other non-current assets	13	367	101	113	134
<b>Other non current assets</b>	<b>206</b>	<b>572</b>	<b>403</b>	<b>414</b>	<b>435</b>
Inventories	3,293	4,965	6,470	6,844	7,908
Sundry Debtors	2,098	2,571	3,923	3,831	4,426
Cash & cash equivalent	315	279	232	464	948
Bank balances other than above	602	253	347	693	1,418
Loans and Advances	30	28	41	41	41
Current tax assets (net)	25	23	-	-	-
Other current financial assets	15	5	0	0	0
Other current Assets	1,284	1,384	1,032	1,032	1,032
<b>Total Current Assets</b>	<b>7,663</b>	<b>9,508</b>	<b>12,046</b>	<b>12,905</b>	<b>15,773</b>
<b>Sundry Creditors</b>	<b>2,136</b>	<b>4,122</b>	<b>6,591</b>	<b>6,413</b>	<b>7,409</b>
Current tax liability	-	-	18	18	18
Other Current Liabilities	148	160	372	362	379
Provisions	27	66	46	50	60
<b>Total Current Liabilities</b>	<b>2,311</b>	<b>4,349</b>	<b>7,027</b>	<b>6,843</b>	<b>7,866</b>
<b>Net Current Assets</b>	<b>5,352</b>	<b>5,160</b>	<b>5,019</b>	<b>6,062</b>	<b>7,907</b>
<b>Total Assets</b>	<b>19,480</b>	<b>19,419</b>	<b>19,989</b>	<b>20,435</b>	<b>21,766</b>

Source: Company, SMIFS institutional research estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Operating profit before WC changes</b>					
Net chg in working capital	(715)	(247)	5	434	(451)
Income taxes paid (net)	(93)	(146)	(462)	(1,278)	(1,688)
<b>Cash flow from operating activities (a)</b>	<b>1,039</b>	<b>1,691</b>	<b>4,061</b>	<b>4,204</b>	<b>3,839</b>
Capital expenditure	(801)	(563)	(1,691)	(900)	(300)
Free Cash Flow	237	1,129	2,370	3,304	3,539
<b>Cash flow from investing activities (b)</b>	<b>(693)</b>	<b>(371)</b>	<b>(1,535)</b>	<b>(775)</b>	<b>(103)</b>
<b>Cash flow from financing activities (c)</b>	<b>(639)</b>	<b>(1,706)</b>	<b>(2,479)</b>	<b>(2,851)</b>	<b>(2,528)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(293)</b>	<b>(385)</b>	<b>47</b>	<b>578</b>	<b>1,209</b>

Source: Company, SMIFS institutional research estimates

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