



Steel Strips Wheels Ltd

New avenues of growth to enlarge wings!

Q1FY23 results were more or less in-line with estimates. In the next 3-5 years, the company plans to add new avenues of growth and fast track its existing high margin businesses viz. 1) Light weighting technology in alloy wheels. 2) Export opportunities in aluminium. 3) Getting into electric motor business. 4) Software IOT - the market is huge. 5) Tractor/OTR business to grow as the company found market in Europe. 6) Looking for inorganic opportunities. 7) New product introduction in aluminum parts - light weighting that goes into EVs and 8) Alloy wheels business to expand as the company has plans to take the capacity to 10mn in five years are on cards. These new business avenues to enlarge wings of SSWL to fly higher. Debt repayment schedule is intact with good cash flow generation visibility. We strongly recommend a BUY for a target price of 1,055.

Combination of high margin segments will take revenues higher & support margins

- High margin alloy wheels capacity of 3mn per annum has reached near 100% utilization in June 2022 due to new order wins from fast growing Non-Maruti customers. The expansion of capacity to 4mn will happen by the end of FY23.
- Steel Strips Wheels Ltd (SSWL) is a leader in MHCV steel wheels and is a clear beneficiary of the CV upcycle for the next two years. It found growth opportunity in the exports OTR segment as well.
- The realization and margins in alloy wheels, CVs, exports and OTR segments are much better.
- The company received inventory gains of Rs 700mn in FY22 and expect Rs 100-150mn of inventory loss in FY23. Despite this, the management is confident of surpassing the absolute EBITDA number in FY23 led by a better product mix.

Hiccups are short lived in exports

- SSWL reported exports value growth of 63% CAGR FY18-FY22. Hence, on a high base and due to global uncertainties, its exports dropped by 44% QoQ in Q1FY23.
- We expect the situation to only get better from August/September onwards, however, due to quiet performance in Q1, we have forecasted 24% exports degrowth in FY23e.
- Start of alloy wheels business, growth in OTR in Europe, CV cycle uptick in the developed nations and strengthening relationship with existing clients will push export growth in the coming years.

Electric motor business an entry point in the high growth electric vehicles

- SSWL to tie-up with an established foreign player (tech-partner) to make eMotors for electric 2Ws, where the opportunity size is going to be enormous in the coming years.
- The company will sell wheels as a complete package along with eMotor fitted and will be the only player in India to initiate this move.

High ROE & growth company is available at attractive valuations

- SSWL RoE improved substantially to ~24% (vs. ~7% in FY21) and is trading attractively at 9.1x FY24e EPS and 5.1x 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 6.5x to FY24e EBITDA of Rs 5,483mn to arrive at a target price of Rs 1,055 per share. The potential is much higher. Recommend BUY!

Y/E Mar (Rs Mn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	Q1 FY23e	Var. (%)
Total Income	10,161	6,781	49.8	10,633	(4.4)	10,372	(2.0)
Gross margin (%)	33.1	36.3	(317) bps	36.5	(340) bps		-
EBITDA	1,093	978	11.8	1,114	(1.8)	1,101	(0.8)
EBITDA margin (%)	10.8	14.4	(366) bps	10.5	28 bps	10.6	14 bps
Other income	0	23	(98.8)	55	(99.5)		-
PBT	710	627	13.2	784	(9.4)		-
Taxes paid	229	117	96.5	295	(22.5)		-
Effective tax rate (%)	32.2	18.6	1,367 bps	37.7	(542) bps		-
Reported PAT	481	511	(5.8)	489	(1.5)	468	2.9
PAT margin (%)	4.7	7.5	(280) bps	4.6	14 bps	4.5	23 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	42,007	18.0	4,629	11.0%	2,100	2.2	66	20.0	14.4	12.0	6.6
FY24e	47,599	13.3	5,483	11.5%	2,772	31.9	88	21.7	16.8	9.1	5.1

Source: Company, SMIFS institutional research estimates

Rating: Buy Upside/(Downside): 31.0%
Current Price: 809 Target Price: 1,055

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 1,000

Market data

Bloomberg:	SSW: IN
52-week H/L (Rs):	995/610
Mcap (Rs bn/USD bn):	25.3/0.3
Shares outstanding (mn):	31.3
Free float:	20.0%
Daily vol. (3M Avg):	60,450
Face Value (Rs):	5.0
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS institutional research

Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	62.6%	62.8%	62.8%	62.8%
FIs	0.1%	0.1%	0.1%	0.3%
DIs	0.4%	0.4%	0.4%	0.3%
Public/others	36.9%	36.7%	36.7%	36.6%

Source: BSE

Price performance (%) *

	1M	3M	12M	36M
BSE SmallCap	12%	-8%	1%	103%
SSWL	5%	-6%	24%	107%

* As on 22nd July 2022; Source: AceEquity, SMIFS research

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Q1FY23 – Key takeaways from the management call

Electric motor business

- Steel Strips Wheels Ltd (SSWL) to explore the opportunity to tie up with the established foreign player as a technology partner to enter into the electric motor segment.
- The traction motor industry is at the nascent stage right now as many startups are working on it. Over the next 12-18 months, only 5-6 formidable and reliable players will be competing with each other.
- 20-25% of the 2W segment will be EVs over two years and hence, the demand for electric motor will be good. The likely competitors will be Bosch, Sona Comstar, Mahle, Nidec, among others.
- The contribution from SSWL for this business will be its strong relationship with customers, new clients' acquisition, sourcing of RM and setting up manufacturing facilities of the global standards.
- Capex of Rs 300-350mn will incur on the motor side and this will be announced in the next 1-2 months. The funding will be from internal accruals.

Alloy wheels

- The current capacity is 3mn per annum, which will increase to 4mn by the end of FY23. At present, running at 100% utilization level in alloys.
- Domestic alloy wheels market is expected to grow by 20% CAGR in the coming years.
- The total global market size for steel and alloy wheels together is 350mn wheels, out of which 90% wheels are alloys. The next leg of growth for any company will be alloy wheels in exports.

Exports

- The export value growth is likely to fall by 25-30% due to recession & war led impact in the EU and the US. Hence, export value will be Rs 6-6.5bn in FY23e.
- The management is seeing export traction coming back from the 2nd quarter and by H2FY23, the inflationary pressures and inventory level with OEMs will start to come-off.
- SSWL started alloy wheels exports in FY23, expect it to generate revenue of Rs 800-900mn and the company aims to grow this business. Alloys will offset some of the lower business in the steel wheels.
- Present export breakup is 65:35 between the US and EU. In FY23e, the US will further dominate the export region.
- The company is supplying to the trailer, caravan, class 8 truck, among other markets in exports for steel wheels. While, it is catering to the aftermarket for alloy wheels business.

Margin

- FY22 EBITDA was Rs 4.5bn, and it includes Rs 700mn of inventory gains, which will not come in FY23. However, purely on the operational performance, the company will be able to report EBITDA of Rs 4.5-5.0bn in FY23. Rs 100-150mn of inventory loss can come in FY23.

- In talks with OEMs for settling other input costs viz. electricity, transportation, paints, etc.

Capex and Debt

- SSWL to spend Rs 1.35bn capex in FY23e. This includes 1) Rs 750mn for alloy wheels expansion from 3mn to 4mn per annum, 2) Rs 350mn for eMotor business, and 3) Rs 250mn for general maintenance capex. All this will be done from internal accruals.
- The company has plans to work on the light weighting project, which may get announced in the next few months and AMW acquisition will be a separate capex.
- The term debt repayment schedule is Rs 1bn each in FY23e & FY24e. Hence, in total Rs 2bn debt will get paid off in the next two years.

Other highlights

- AMW AutoComponent's acquisition is likely to conclude by the end of Q3 or start of Q4FY23.
- Tax rate will get normalize in the next two years to 25% level.
- Pledge shares will come down to negligible level by the end of FY23; the management have plans to reduce it.

Broad outlook

- FY23e revenues to touch Rs 42bn, out of it Rs 10-11bn will be alloy wheels (FY22 revenue from alloys were ~Rs 7bn). If exports picked up, then the company can cross Rs 45bn of the topline.
- CVs and alloy wheels business, along with agriculture segment in exports will drive revenues and margin in FY23e.
- SSWL has high market share in the domestic CV market, and the industry will grow upwards of 20% in FY23. The CV utilization is 72-75% and has sufficient capacity to play the ongoing CV upcycle.
- Higher capacity utilization, along with better product mix tilted towards the CV, exports and alloy wheels has pushed up the return ratios in FY22.
- In the next 3-5 years, the company is planning to do several things viz. 1) light weighting technology in alloy wheels, 2) export opportunities in aluminum, 3) getting into electric motor business, 4) Software IOT – as SSWL does not want to be only in the commodity business. The market is huge, 5) Agriculture/tractor/OTR business will grow as the company found market in Europe, 6) Inorganic opportunities, 7) New product introduction in aluminum parts - light weighting that goes into EVs, and 8) Alloy wheels business will expand as the company has plans to take the capacity to 10mn in five years.

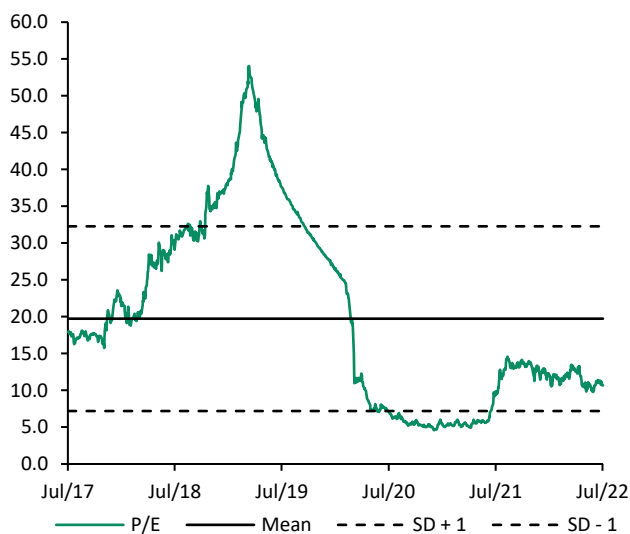
Outlook and Valuations

Q1FY23 results were more or less in-line with estimates. **In the next 3-5 years, the company plans to add new avenues of growth and fast track its existing high margin businesses viz.** 1) Light weighting technology in alloy wheels. 2) Export opportunities in aluminium. 3) Getting into electric motor business. 4) Software IOT - the market is huge. 5) Tractor/OTR business to grow as the company found market in Europe. 6) Looking for inorganic opportunities. 7) New product introduction in aluminum parts - light weighting that goes into EVs and 8) Alloy wheels business to expand as the company has plans to take the capacity to 10mn in five years are on cards.

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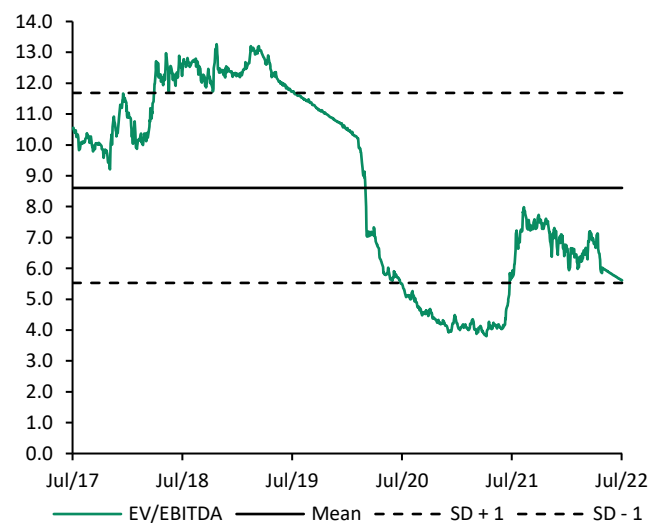
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- **We have valued the company by assigning EV/EBITDA multiple of 6.5x to FY24e EBITDA of Rs 5,483mn to arrive at a target price of Rs 1,055 per share. The potential is much higher. Recommend BUY!**

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)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Sales	4,047	5,245	6,999	6,781	9,580	8,605	10,633	10,161
Raw Materials	2,533	3,164	4,536	4,319	5,707	5,096	6,749	6,794
Employee Costs	290	488	574	474	521	555	637	652
Other Expenditure	725	938	1,027	1,010	1,982	1,888	2,133	1,621
EBITDA	498	655	861	978	1,370	1,066	1,114	1,093
Depreciation	179	179	192	176	201	202	189	201
Interest	216	204	193	197	237	225	195	182
Other Income	52	38	65	23	36	17	55	0
PBT	155	310	541	627	968	656	784	710
Tax	15	22	95	117	340	229	295	229
Tax rate (%)	9.4%	7.2%	17.6%	18.6%	35.1%	34.9%	37.7%	32.2%
Reported PAT	140	288	446	511	628	427	489	481
YoY Growth (%)								
Revenue	11.8	52.7	80.8	463.9	136.7	64.1	51.9	49.8
EBITDA	20.3	53.5	174.0	4,081.2	175.2	62.7	29.4	11.8
Reported PAT	82.4	357.0	NA	NA	347.8	48.5	9.7	-5.8
QoQ Growth (%)								
Revenue	236.5	29.6	33.4	(3.1)	41.3	(10.2)	23.6	(4.4)
EBITDA	NA	31.6	31.4	13.6	40.2	(22.2)	4.4	(1.8)
Reported PAT	NA	105.1	54.9	14.6	22.9	(32.0)	14.5	(1.5)
Margin (%)								
RMC/revenue (%)	62.6	60.3	64.8	63.7	59.6	59.2	63.5	66.9
Gross margin (%)	37.4	39.7	35.2	36.3	40.4	40.8	36.5	33.1
Employee cost/revenue (%)	7.2	9.3	8.2	7.0	5.4	6.4	6.0	6.4
Other expenses/revenue (%)	17.9	17.9	14.7	14.9	20.7	21.9	20.1	16.0
EBITDA margin (%)	12.3	12.5	12.3	14.4	14.3	12.4	10.5	10.8
PAT margin (%)	3.5	5.5	6.4	7.5	6.6	5.0	4.6	4.7

Source: Company, SMIFS institutional research

Fig 4: Key Assumptions

Operating metrics	FY19	FY20	FY21	FY22	FY23e	FY24e
Volumes (Mn units)	15.9	14.0	13.4	17.9	19.7	21.6
Growth (%)	10	-12	-4	34	10	10
Realization/unit (Rs)	1,283	1,118	1,310	1,991	2,127	2,202
Growth (%)	23	-13	17	52	7	4

Source: Company, SMIFS institutional research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Revenues	15,633	17,494	35,600	42,007	47,599
% Growth	(23.4)	11.9	103.5	18.0	13.3
Raw Materials	9,663	10,991	21,871	26,648	30,100
% of sales	61.8	62.8	61.4	63.4	63.2
Personnel	1,561	1,529	2,187	2,538	2,829
% of sales	10.0	8.7	6.1	6.0	5.9
Manufacturing Exps	2,697	2,936	7,014	8,192	9,187
% of sales	17.3	16.8	19.7	19.5	19.3
EBITDA	1,712	2,038	4,528	4,629	5,483
EBITDA Margin (%)	11.0	11.6	12.7	11.0	11.5
Depreciation & Amortization	719	723	769	837	848
EBIT	993	1,314	3,759	3,792	4,634
Finance cost	887	839	854	709	618
PBT From Operations	106	475	2,905	3,083	4,017
Other Income	221	163	130	148	247
PBT	327	638	3,035	3,232	4,264
Tax	93	146	981	1,131	1,492
Tax Rate (%)	28.3	22.8	32.3	35.0	35.0
PAT	234	493	2,055	2,100	2,772
PAT Margin	1.5	2.8	5.8	5.0	5.8

Source: Company, SMIFS institutional research estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23e	FY24e
Growth Ratios (%)					
Net Sales	(23.4)	11.9	103.5	18.0	13.3
EBITDA	(30.4)	19.0	122.2	2.2	18.5
Net Profit	(71.5)	110.0	317.2	2.2	31.9
Margin Ratio (%)					
EBITDA Margin	11.0	11.6	12.7	11.0	11.5
EBIT Margin	6.3	7.5	10.6	9.0	9.7
PBT margins	2.1	3.6	8.5	7.7	9.0
Adj. PAT Margin	1.5	2.8	5.8	5.0	5.8
Return Ratios					
ROE	3.4	6.8	24.2	20.0	21.7
ROCE	5.2	6.7	15.4	14.4	16.8
ROIC	4.1	5.7	14.0	13.3	16.1
Turnover Ratios (days)					
Gross Block Turnover (x)	0.8	0.9	1.8	1.9	2.1
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
Solvency ratio (x)					
Debt-equity	1.4	1.3	0.8	0.6	0.4
Net Debt-Equity	1.3	1.2	0.8	0.5	0.2
Gross Debt/EBITDA	5.8	4.6	1.7	1.5	1.1
Current ratio	3.3	2.2	1.7	1.9	2.1
Interest coverage ratio	1.1	1.6	4.4	5.3	7.5
Dividend					
Adj. DPS (Rs.)	2.4	-	1.0	4.0	7.1
Dividend Yield (%)	0.3	-	0.1	0.5	0.9
Dividend Payout (%)	32.1	-	1.5	6.1	8.1
Per share (Rs.)					
Adj Basic EPS (reported)	8	16	66	66	88
Adj. CEPS	31	39	90	94	116
Adj. BV	224	240	305	368	450
Valuation					
P/E	50.7	15.5	10.6	12.0	9.1
P/BV	1.7	1.0	2.3	2.2	1.8
EV/EBITDA	12.3	8.1	6.4	6.6	5.1
EV/Sales	1.3	0.9	0.8	0.7	0.6

Source: Company, SMIFS institutional research estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Sources of funds					
Capital	156	156	156	156	156
Share application money pending allotment	-	-	-	-	-
Reserves & Surplus	6,824	7,337	9,362	11,337	13,887
Shareholders' Funds	6,979	7,493	9,518	11,493	14,043
Total Loan Funds	10,011	9,372	7,779	6,779	5,779
Deffered tax liabilities	1,535	1,637	1,706	1,890	1,904
Long term provisions	137	115	235	162	175
Other non-current liabilities	817	801	751	840	952
Total Liabilities	19,480	19,419	19,989	21,164	22,853
Application of funds					
Gross Block	19,044	19,226	20,882	22,239	22,546
Accumulated Dep.	5,978	6,635	7,286	8,122	8,971
Net Block	13,065	12,592	13,596	14,116	13,575
Capital WIP	855	1,093	969	282	271
Net Assets	13,920	13,685	14,566	14,398	13,846
Investments	2	2	2	2	2
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	103	123
Other non current assets	206	572	403	405	424
Inventories	3,293	4,965	6,470	6,966	7,868
Sundry Debtors	2,098	2,571	3,923	3,832	4,342
Cash & cash equivalent	315	279	232	578	1,238
Bank balances other than above	602	253	347	864	1,852
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
Total Current Assets	7,663	9,508	12,046	13,313	16,374
Sundry Creditors	2,136	4,122	6,591	6,527	7,372
Current tax liability	-	-	18	18	18
Other Current Liabilities	148	160	372	362	347
Provisions	27	66	46	46	55
Total Current Liabilities	2,311	4,349	7,027	6,953	7,792
Net Current Assets	5,352	5,160	5,019	6,359	8,581
Total Assets	19,480	19,419	19,989	21,164	22,853

Source: Company, SMIFS institutional research estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Operating profit before WC changes					
Operating profit before WC changes	1,847	2,084	4,518	4,629	5,483
Net chg in working capital	(715)	(247)	5	408	(443)
Income taxes paid (net)	(93)	(146)	(462)	(1,131)	(1,492)
Cash flow from operating activities (a)	1,039	1,691	4,061	3,905	3,548
Capital expenditure	(801)	(563)	(1,691)	(1,350)	(300)
Free Cash Flow	237	1,129	2,370	2,555	3,248
Cash flow from investing activities (b)	(693)	(371)	(1,535)	(1,208)	(59)
Cash flow from financing activities (c)	(639)	(1,706)	(2,479)	(1,835)	(1,840)
Net chg in cash (a+b+c)	(293)	(385)	47	863	1,649

Source: Company, SMIFS institutional research estimates

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