

September 26, 2023

Visit Update

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22	FY23
Sales (Rs. m)	15,633	17,494	35,600	40,405
EBITDA (Rs. m)	2,483	2,038	4,530	4,586
Margin (%)	15.9	11.7	12.7	11.4
PAT (Rs. m)	234	493	2,055	1,938
EPS (Rs.)	1.5	3.2	13.2	12.4
Gr. (%)	-71.6	110.0	316.8	-5.9
DPS (Rs.)	-	-	0.8	1.0
Yield (%)	-	-	0.3	0.4
RoE (%)	3.4	6.8	24.2	18.6
RoCE (%)	5.7	8.2	18.6	16.9
EV/Sales (x)	3.2	2.8	1.4	1.2
EV/EBITDA (x)	20.1	24.4	11.0	10.9
PE (x)	186.4	88.8	21.3	22.6
P/BV (x)	6.3	5.8	4.6	3.9

Key Data

STWH.BO | SSW IN

52-W High / Low	Rs. 290 / Rs. 128
Sensex / Nifty	66,024 / 19,675
Market Cap	Rs.43.9bn/ \$ 527.8m
Shares Outstanding	156.5m
3M Avg. Daily Value	Rs. 210.0m

Shareholding Pattern (%)

Promoter's	62.68
Foreign	5.63
Domestic Institution	1.23
Public & Others	30.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.3	71.5	70.8
Relative	12.1	55.3	55.2

Himanshu Singh

himanshuksingh@plindia.com | 91-22-66322269

Steel Strips Wheels (SSW IN)

Rating: Not Rated | CMP: Rs280 | TP: NA

Steady core and expanding opportunities

Quick Pointers:

- New products to help in revenue and margin growth.
- Substantial capacity expansion plans to help grow faster than the industry.

We visited Steel Strip (SSWL) plants in Mehsana, Gujarat. The company along with Kalink Co. Ltd. (one amongst top 7 alloy wheel manufacturers in the world) had entered into a strategic alliance in Sept-15 for setting up this plant. The plant became operational in 2019 and currently has ~3mn alloy wheel capacity expected to expand to 4.8mn. Management highlighted clear strategy of 1) diversifying product portfolio 2) expanding export market and 3) shifting its sales mix towards high-margin segments. It is also working on wheels for EVs and majority of its business is agnostic to powertrain. SSWL remains ahead on technology front, focused on weight reduction of products to offer superior quality and aims to shift its sales mix towards high margin segments like alloy wheels and exports.

We believe steady core business and ramp-up of new businesses will help expand revenue and margins with revenue growth expectation of ~9-10% on blended basis over next 5 years and help diversify its mix. SSWL aims to grow volumes by 12-16% in FY24, with revenue of ~Rs.45bn-47bn in FY24 v/s Rs.40bn in FY23 with export contributing Rs.5bn-6bn. The stock is currently trading at a valuation of ~17x FY24E and it could see EPS growth of 16-20% based on management volume and EBITDA guidance, in our view. Not Rated.

- **SSWL expects to grow faster than the industry** on back of new products launches like aluminum knuckle for PVs and other JVs. The business is a direct play on Indian automobile industry growth and premiumisation trends. SSWL has a wheel capacity of 23 million+ units with 20 million for steel wheels and 3 million for alloy wheels. With Steel Wheels making up ~72% of 1QFY24 revenues, Alloy Wheels accounted for about 28%. The company has plans to expand its steel wheel capacity by 70 lakhs and Alloy wheels' capacity is also planned to be expanded by 50% in FY24. Current capacity utilisation is at 76% for Steel wheels and 98% for Alloy wheels. SSWL holds a significant market share in various segments like Passenger Vehicles (50%), MHCV (53%), Tractors (44%), and 2-3 Wheelers (30%). Diamond Cut wheels make 75-80% of current production & remaining 20-25% involves other types of coating.
- **Alloy Wheels plant at Mehsana, Gujarat:** SSWL has a plant area of 275k sq meters and the covered area is 128k sq meters. It houses 16 low pressure die-cast machines and plans to install 8 more. It also has 21 CNC cell which caters to the cumulative capacity of 3.2mn wheels. Company also houses 2 painting machines; a 3rd machine was recently added. SSWL uses imported aluminum and casting ingots. An alloy wheel approximately weighs 10-11kgs. Company manufactures more than 250k alloy wheels per month of which 40-50k are exported. Company's capacity is sold out till 2026 in alloy and has guided on phase wise production ramp up for alloy wheels to suffice the

orders. Phase 1 & 2 of production are already online while in phase 3 capacity will be increased from 3mn to 4.8mn wheels per annum in phased manner starting in Oct-23. Phase-4 is expected to expand from 4.8mn to 10mn wheels starting in 2025.

- **Aluminum knuckles could support growth:** SSWL has developed a new product “Aluminum knuckles” for PVs and has set-up a capacity of 1.2mn-1.5mn units which will ramp-up in phased manner starting 4QFY24. Every car requires 4 Knuckles (Steel or Aluminum) and the average after-market cost of steel Knuckles is in the range of Rs1,500 to Rs7,000 depending on vehicle and variant, aluminum knuckles cost will be much higher than steel. Aluminum knuckles require same raw material as alloy wheels and was a relatively easy diversification target for the company. In Europe 95% of PVs have aluminum knuckles while in India the market is relatively small, but EV push is making OEMs to move to lighter components which should drive demand for aluminum Knuckles. SSWL has already received orders from Mahindra and is working with Tata Motors for their EV models.

Brief about the company & primary products:

Steel Strips Wheels Limited is a leading manufacturer of automotive wheels in India. The company offers a diverse range of products, including steel and alloy wheels, serving various segments of the automobile industry such as passenger vehicles, commercial vehicles, tractors, two-wheelers, and OTR vehicles. Over 90% of company revenue is generated from domestic market. SSWL has won 2 awards for quality control ie. Hyundai (Zero PP) and Ford India (Q1 Award) and the newly developed aluminum knuckle has 7-8 design patents to its name.

Overall company outlook:

Financial targets:

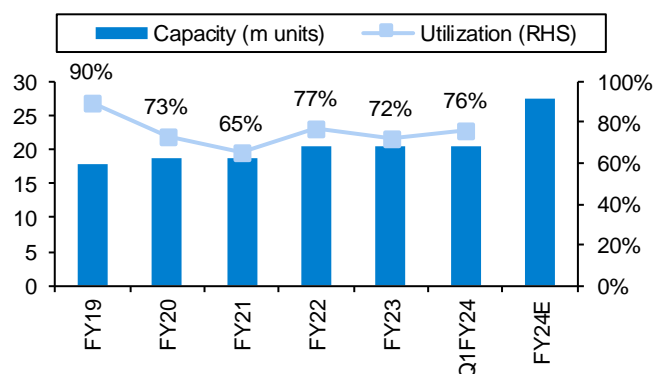
- Overall volume Growth of 12-16% in FY24.
- Revenue of Rs. 45bn-47bn in FY24 vs Rs. 40.4bn in FY23; increased upper end of the guidance in 1QFY24 with significant ramp-up expected in 2HFY24.
- Company's growth is expected to outpace industry growth due to focus on exports and aluminium wheels.
 - Commercial Vehicle is moving slow and steady at high single digits.
 - Passenger Vehicle is anticipated to grow between 8-10%.
- Expect Rs.5bn-.6bn worth of exports in FY24 vs Rs. 2.9bn in FY23.
 - Alloy Wheel exports generate Rs.800mn-Rs.1000mn worth revenue.
- SSWL is targeting EBITDA per wheel of around Rs.250-Rs.260.

Strategy and outlook:

- SSWL is focusing on high-value items.

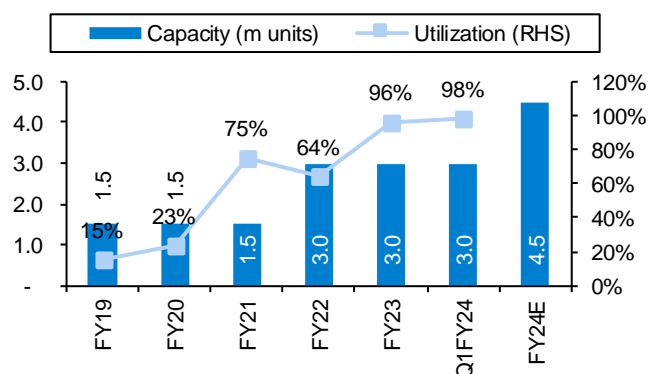
- Aims to be the lowest cost producer of wheels, globally.
- The company is looking forward to increase its global presence with major focus on alloy wheels. Accordingly, it is expanding capacity with plans to take up global market share of 1% within next 3 years. The alloy wheel segment has the potential to grow by more than 15% in terms of volume, each year with export opportunities.
- Exports of alloy wheels present a long-term trend for the company and have potential to reach Rs.10bn by FY26.
- SSWL remains ahead on the technology front, focusing on light weighting the products to offer superior quality.
- SSWL aims to shift its sales mix towards high-margin segments like Alloy Wheels and Exports.
- It is also exploring avenues to foray into the EV segment.
- The steel wheel market is expected to grow at 8% p.a., and alloy wheel market at 12% p.a. over next 5 years.

Exhibit 1: 7Mn Steel Wheel capacity to be added by FY24



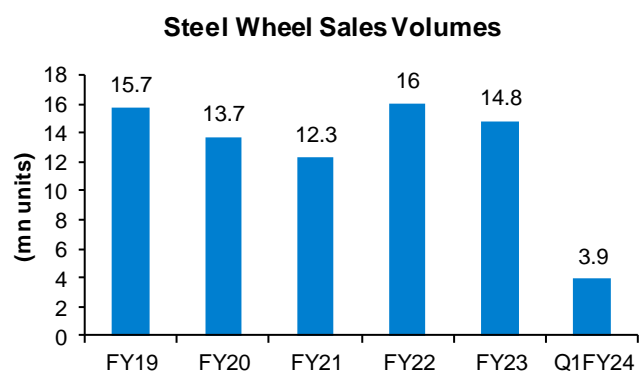
Source: Company, PL

Exhibit 2: Alloy Wheels capacity to be expanded by 50%



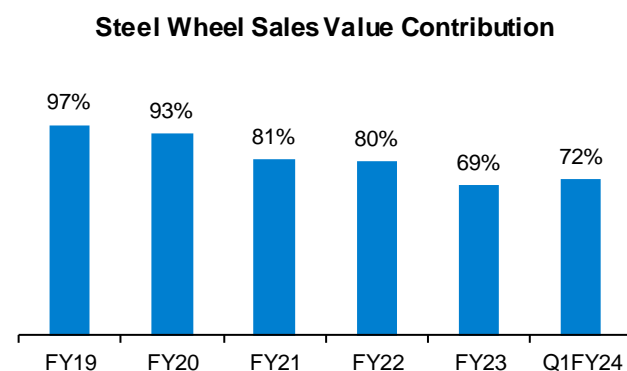
Source: Company, PL

Exhibit 3: Steel Wheels Sales Vol.; 50% Domestic Mkt. Share



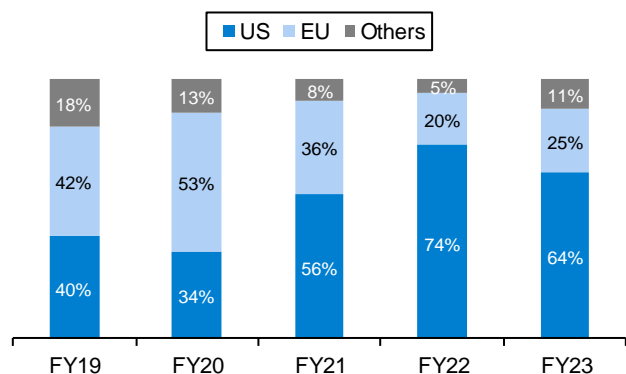
Source: Company, PL

Exhibit 4: Steel Wheel sales value contribution lowering



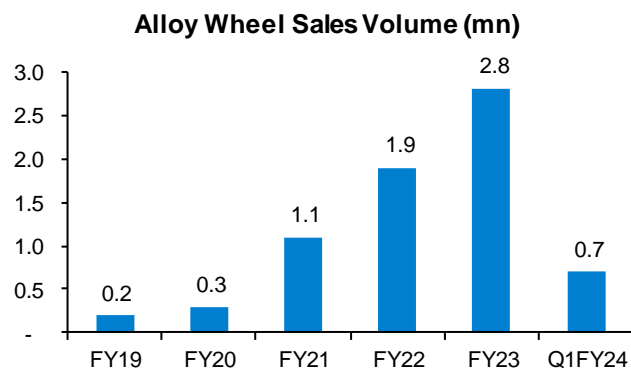
Source: Company, PL

Exhibit 5: US dominating export revenue contribution



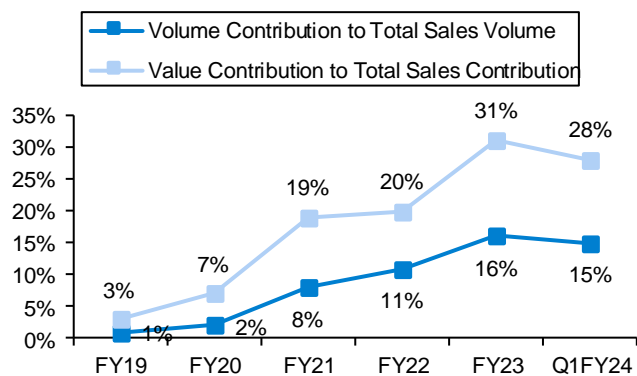
Source: Company, PL

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



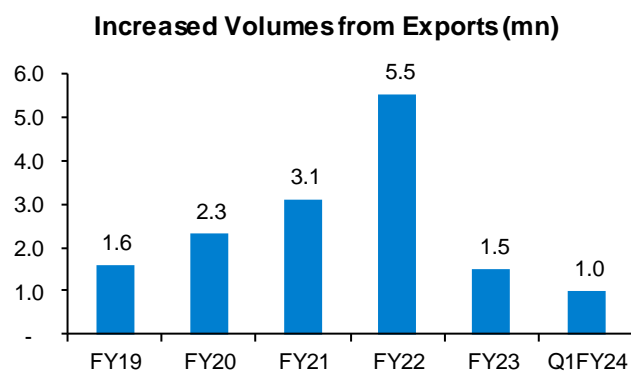
Source: Company, PL

Exhibit 7: Alloy Wheels leading to increased contribution



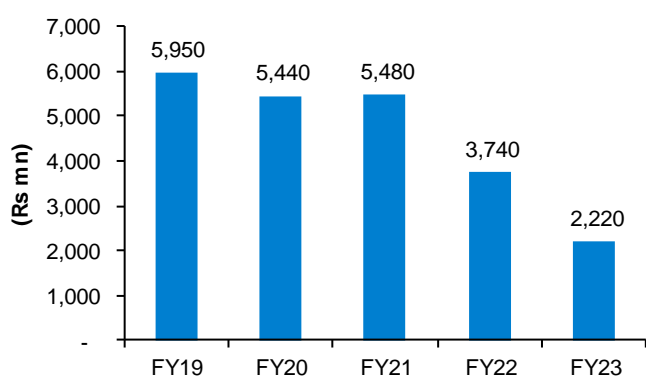
Source: Company, PL

Exhibit 8: 51% increased exports volumes from FY19 to FY22



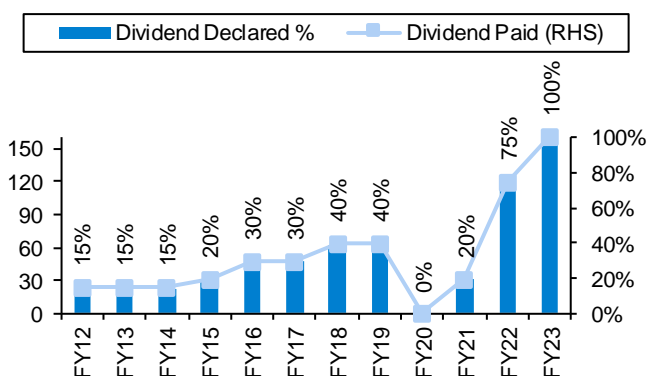
Source: Company, PL

Exhibit 9: Lowering long term debt



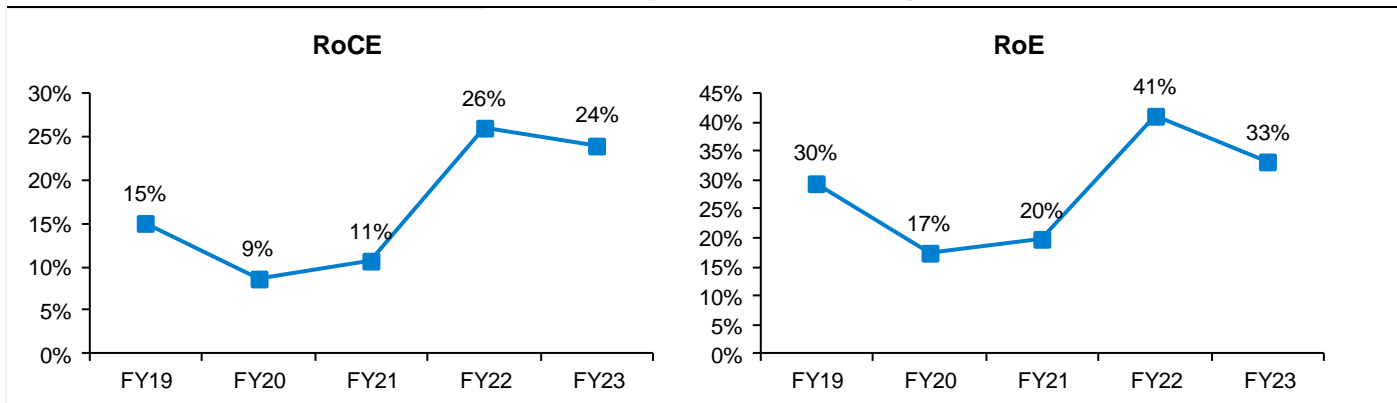
Source: Company, PL

Exhibit 10: Consistent Dividend declared by the Company



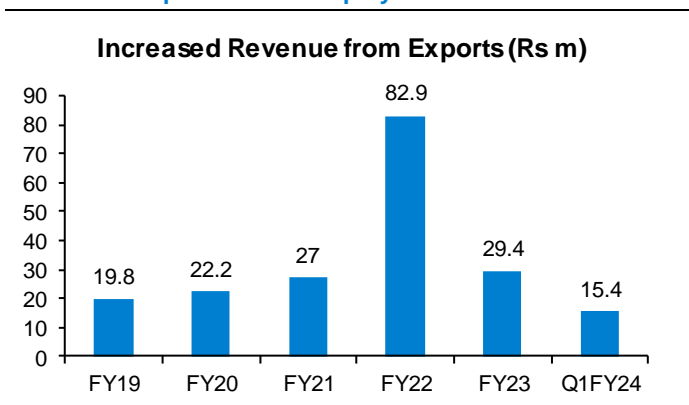
Source: Company, PL

Exhibit 11: Increased cash accruals utilized in debt repayment hence improving RoE and RoCE



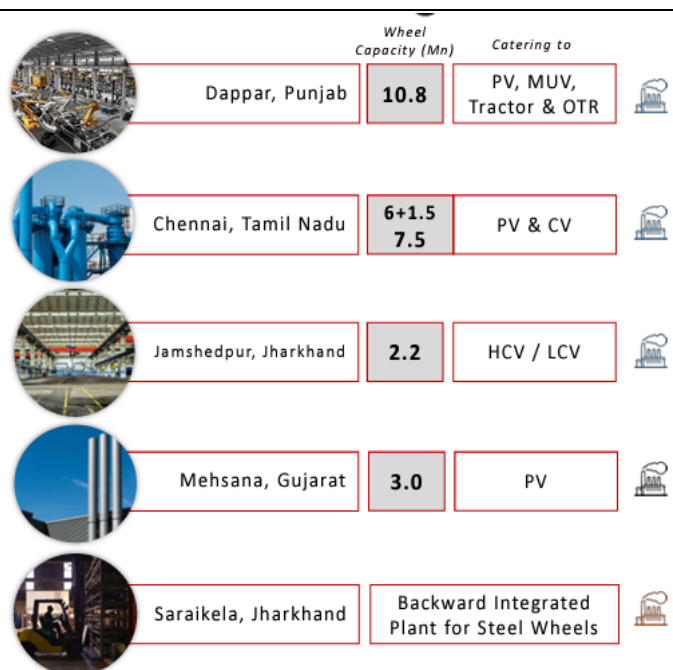
Source: Company, PL

Exhibit 12: Exports revenue up by 61% from FY19 to FY22



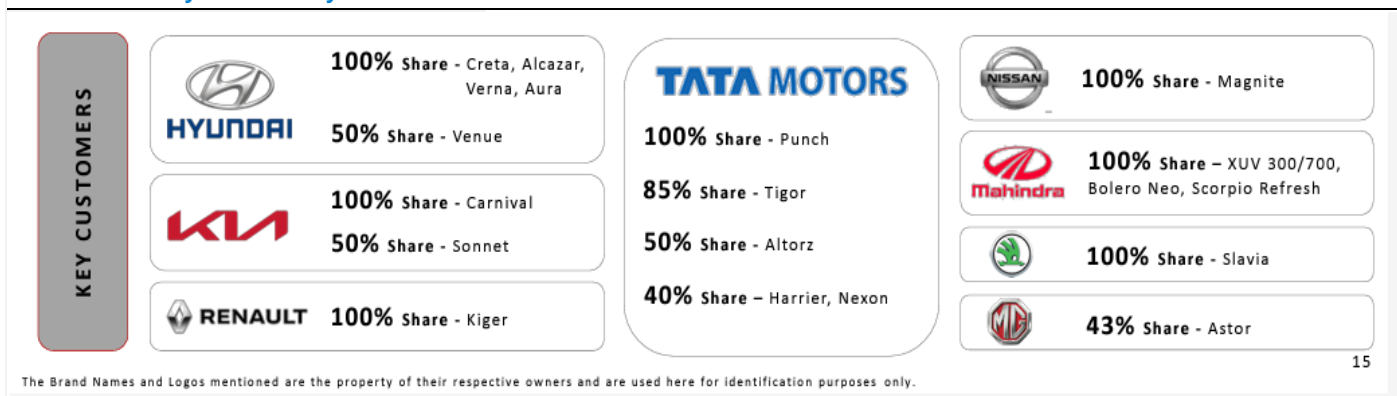
Source: Company, PL

Exhibit 13: State of the Art Facilities



Source: Company, PL

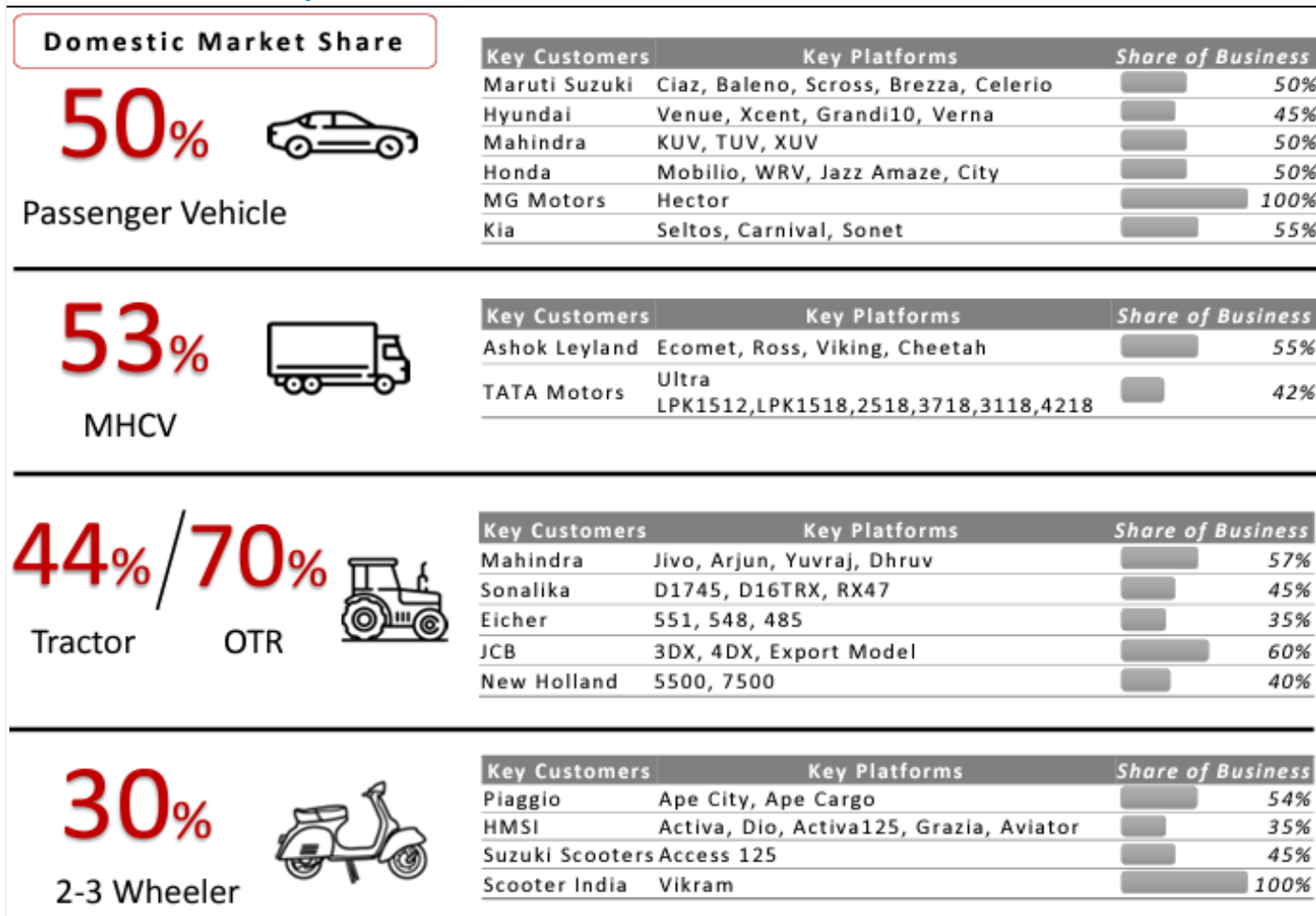
Exhibit 14: Alloy Wheels Key Customers and Share of Business



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Source: Company, PL

Exhibit 15: Steel Wheels Key Customers and Share of Business



Source: Company, PL

Exhibit 16: Clientele spread across passenger vehicles, commercial vehicles and 2wheelers

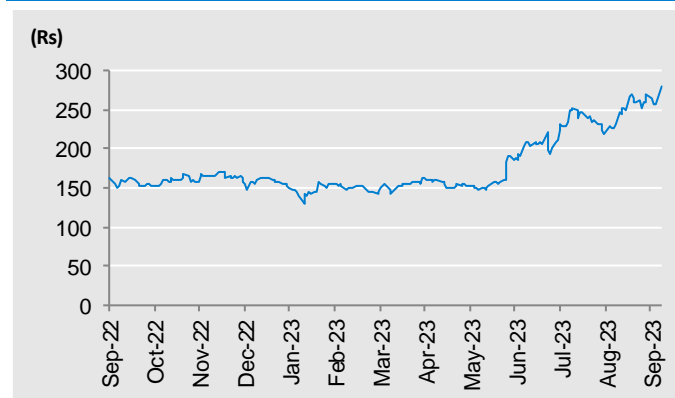


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Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
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Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	225	182
2	Bajaj Auto	Reduce	4,575	4,839
3	Bharat Forge	BUY	1,070	963
4	CEAT	Hold	2,430	2,496
5	Eicher Motors	Accumulate	3,520	3,380
6	Endurance Technologies	Accumulate	1,725	1,636
7	Exide Industries	Accumulate	295	274
8	Hero Motocorp	Accumulate	3,535	2,995
9	Mahindra & Mahindra	BUY	1,760	1,465
10	Maruti Suzuki	BUY	11,100	9,821
11	Tata Motors	BUY	760	639
12	TVS Motor Company	Accumulate	1,400	1,364

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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