

## Healthy growth prospects, inexpensive valuations ...

About the stock: Steel Strips Wheels Ltd. (SSWL), is a Chandigarh based company involved in designing and manufacturing of automotive wheels - both steel and alloy wheels. It currently has four plants in India with total production capacity of ~2.3 crore wheels per annum (including ~0.3 crore of alloy wheels)

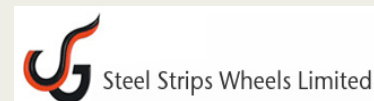
- 9MFY24 revenue mix: Alloy wheels: 28%; Steel wheels: 72%
- 9MFY24 market share in steel wheels: PV: 42%; M&CV: 61%; Tractor: 42%
- SSWL counts all major domestic OEMs as its clients across categories

### Investment Rationale

- Alloy wheel expansion, Acquisition & Exports to propel topline growth: SSWL is a leading wheel manufacturer domestically and is a prominent player in domestic oligopolistic wheels industry. It is presently executing a brownfield expansion in the alloy wheel space which will augment its capacity from 30 lakh units per annum to 48 lakh units per annum with full ramp up of the same expected in 2-3 years timeframe. SSWL in the recent past has also acquired AACL from NCLT at an acquisition cost of ~₹ 138 crore, having steel wheel capacity of ~70 lakh units. Thus, total installed capacity at SSWL is expected to increase from 2.3 crore units to ~3.2 crore units by FY25 end. Going forward sensing steady demand prospects in the steel wheel segment, greater exports thrust and premiumisation play in alloy wheel space we have built in wheel sales volume CAGR of 10% over FY23-26E. We have modelled in total wheel sales of 2.0 crore wheels in FY24E, 2.2 crore in FY25E and 2.3 crore in FY26E. Exports are also seen supporting volumes and are already up 130% YoY at ₹505 crore in 9MFY24
- Increasing alloy wheel sales, o/p leverage to support margins and RoCE: SSWL is a capital efficient company realising ~11% EBITDA margins and ~15-18% return ratios profile. Going forward with double digit topline growth, rise in alloy wheel share in total business & associated o/p leverage benefits, we expect steady ~11% margins and healthy 15%+ RoCE profile to sustain at SSWL. On the conservative side we have built in EBITDA/unit of ₹ 260/unit in FY26E vs. ~₹ 250/unit in FY23. Over FY22-25E, average CFO generation at SSWL is pegged at ~₹ 400 crore with average CFO yield at healthy ~9%, providing good margin of safety.

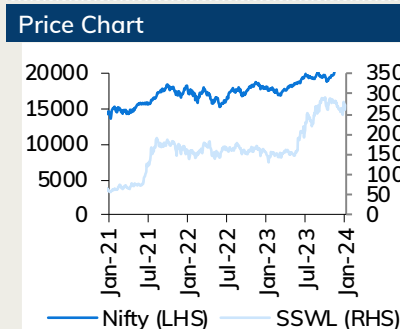
### Rating and Target Price

- We assign BUY rating to SSWL tracking alloy wheel led growth visibility with Sales/PAT seen growing at a CAGR of 11%/19% over FY23-26E, RoCE profile of 15%+ and powertrain agnostic product profile (no EV risk).
- We also derive comfort from its inexpensive valuations (~13x PE, ~8x EV/EBITDA & ~2.3x PB on FY26E) and healthy b/s (0.3x debt: equity: FY26)
- We value SSWL at ₹ 340 i.e. 18x P/E on FY25-26E average EPS of ₹ 19



Particulars	
Particulars	₹ crore
Market capitalisation	4,240.4
Total Debt (FY23)	638.3
Cash & Investment (FY23)	44.0
EV (₹ crore)	4,834.6
52 week H/L (₹)	299 / 126
Equity capital (₹ crore)	15.7
Face value (₹)	1.0

Shareholding pattern				
	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	62.7	62.7	62.3	62.3
FII	5.6	5.6	6.1	6.1
DII	0.8	1.2	2.1	2.7
Other	30.9	30.5	29.6	29.0



- ### Recent Event & Key risks
- Posted steady Q3FY24 with EBITDA margins at 10.5% & PAT growth of 36% YoY (supported by low tax incidence at ~16%)
  - Key Risk: (i) Slower than anticipated growth in alloy wheel segment as well as exports, (ii) high competitive intensity limiting improvement in EBITDA margins

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### Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY19-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	2,041.2	1,563.3	1,749.4	3,560.0	4,040.5	18.6%	4,436.0	4,995.9	5,555.5	11.2%
EBITDA	245.9	171.2	203.8	452.8	442.8	15.8%	474.7	537.1	605.5	11.0%
EBITDA Margins (%)	12.0	11.0	11.6	12.7	11.0		10.7	10.8	10.9	
Net Profit	82.4	23.4	49.3	205.5	193.8	23.9%	210.4	261.0	329.7	19.4%
EPS (₹)	5.3	1.5	3.2	13.2	12.4		13.4	16.7	21.1	
P/E	51.5	180.8	86.2	20.7	22.0		20.2	16.3	12.9	
RoNW (%)	12.1	3.4	6.6	21.6	17.1		15.9	16.7	17.7	
RoCE (%)	9.9	5.1	6.8	19.0	18.0		15.3	16.1	18.1	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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