

Steel Strips Wheels (STESW)

CMP: ₹ 192

Target: ₹ 260 (35%)

Target Period: 12 months

June 26, 2023

BUY (HIGH CONVICTION IDEA)

Stepping up play in alloy wheel business; capital efficient business model; trades at 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 wheels per annum for alloy wheels).

- **FY23 revenue mix: Alloy wheels: 31%; Steel wheels: 69%**
- **FY23 end-user mix: PV: ~50%; CV: ~30%; Tractors: ~12%; Others: ~8%**
- **FY23 market share in steel wheels: PV: 50%; M&CV: 53%; Tractor: 44%**

Investment Rationale:

- **Proxy to domestic auto industry; alloy wheel presence added positive:** SSWL operates in an oligopolist industry structure and is a sound proxy of underlying volume growth in the domestic auto space. Demand prospects are steady in the steel wheel business while robust in the alloy wheel segment amid increasing penetration of SUVs and premiumisation trend underway in PV, 2-W space. It counts all major OEMs at its clients. With alloy wheel segment operating at peak utilization levels, it is expanding capacity in this domain from existing ~30 lakh units to ~48-50 lakh units by FY25 with **realisations in this space at ~3-4x steel rim and EBITDA/unit at ~2x the base business**. Steel: Alloy wheel share of sales improved to 69:31 in FY23 vs. 80:20 as of FY22. With alloy wheel sales on the rise, on the conservative side we build in **EBITDA/unit of ₹ 260/unit in FY25 vs. ~₹ 250/unit in FY23**
- **Debt on decline; return ratios turn healthy ~20%:** Post hitting a peak gross debt of ~₹ 1,000 crore as of FY20, debt on SSWL's books is on a constant decline amid healthy CFO generation and controlled capex spends, with gross debt now down to ~₹ 640 crore as of FY23 and is expected to further decline to sub ₹ 550 crore levels by FY25E. Consequently, its return ratios matrix has improved from sub 10% as of FY20 to ~20% mark in FY23. We believe this should drive further re-rating of the stock as it now meets the investment threshold with company committed to healthy profitable growth, going forward. Over FY22-25E, average CFO generation at SSWL is pegged at ~₹ 400 crore with average CFO yield at a healthy ~13%

Rating and Target Price

- We assign **BUY** rating to SSWL amid powertrain agnostic product profile (no EV risk), healthy volume growth visibility, increasing share of exports & alloy wheel in overall sales mix, consequent rise in margins & return ratios
- We also derive comfort from its inexpensive valuations (<10x PE, ~6x EV/EBITDA and <2x PB on FY25E) and healthy b/s (0.3x debt: equity: FY25)
- We value SSWL at ₹ 260 i.e. 13x P/E on FY25E EPS of ₹ 20
- **This is our high conviction small-cap idea**



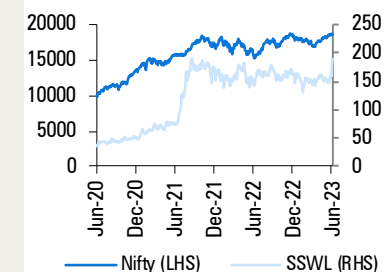
Particulars

Particulars	₹ crore
Market capitalisation	2,993.2
Total Debt (FY23P)	638.3
Cash & Investment (FY23P)	44.6
EV (₹ crore)	3,586.9
52 week H/L (₹)	200 / 126
Equity capital (₹ crore)	15.7
Face value (₹)	1.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	62.6	62.6	62.6	62.7
FII	0.1	0.1	5.6	5.6
DII	0.4	0.4	0.6	0.8
Other	36.9	36.9	31.1	30.9

Price Chart



Recent Event & Key risks

- SSWL has Tata Steel as strategic investor (6.9%) & key RM supplier
- **Key Risk:** (i) Slower than anticipated recovery in export sales, (ii) Aggressive expansion by peers in alloy wheel segment leading to market share loss

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	4 year CAGR (FY19-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	2,041.2	1,563.3	1,749.4	3,560.0	4,040.5	18.6%	4,577.8	5,163.9	13.0%
EBITDA	245.9	171.2	203.8	452.8	442.8	15.8%	508.1	576.8	14.1%
EBITDA Margins (%)	12.0	11.0	11.6	12.7	11.0		11.1	11.2	
Net Profit	82.4	23.4	49.3	205.5	193.8	23.9%	243.5	316.4	27.8%
EPS (₹)	5.3	1.5	3.2	13.2	12.4		15.6	20.2	
P/E	36.3	127.6	60.9	14.6	15.5		12.3	9.5	
RoNW (%)	12.1	3.4	6.6	21.6	17.1		18.0	19.3	
RoCE (%)	9.9	5.1	6.8	19.0	18.0		17.8	19.7	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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