

Steel Strips Wheels (STESW)

CMP: ₹ 330

Target: NA

Target Period: NA

UNRATED

May 27, 2020

Leading wheel rim player...

We interacted with the management of Steel Strips Wheels (SSWL) to gain a deeper understanding of the Indian wheel rim industry in general and SSWL's operations, in particular. Established in 1991, SSWL is a part of the near oligopolistic domestic steel wheel rim space, controlling ~90% of the market along with Wheels India. It serves the PV, 2-W, 3-W, CV, tractor and OTR segments on the steel side, and also has a presence in the PV alloy wheel rims segment. SSWL has a total installed capacity of 19.8 million (mn) units per annum across four locations: 9 mn units at Dappar, Punjab (7.25 mn for PV, 2-W, 3-W; 1.75 million for tractors, CV, OTR); 7.5 mn units at Chennai, Tamil Nadu (6 mn for PV, 1.5 mn for CV); 1.8 mn units at Jamshedpur, Jharkhand for CV and 1.5 mn units at Mehsana, Gujarat for PV alloy wheels. The company's clientele includes all major OEMs viz. Maruti Suzuki, Tata Motors, Kia Motors, Hyundai, Ashok Leyland, M&M, Escorts, Suzuki Motorcycle, etc. With ~1-1.2x asset turnover, stable ~12% EBITDA margins and ~50 days of NWC cycle, SSWL realises steady ~12% RoCE.

Indian wheel rim industry size pegged at ~₹ 8,200 crore (FY19)

As per our estimates, the domestic wheel rim industry is worth ~ ₹ 8,200 crore, comprising steel wheel rims worth ~ ₹ 4,400 crore and alloy wheel rims worth ~ ₹ 3,800 crore. On the steel wheel side, SSWL commands 50% market share in PVs, ~42% in tractors & ~52% in M&HCV. Here it competes primarily with Wheels India, whose market share is at ~49%, ~50% & ~40% in these respective segments. SSWL has 35% market share in scooters, with Klassic Wheels being the dominant player. SSWL also has ~70% market share in back hoe loaders. Alloy wheel space largely serves PV (30% penetration), scooters (20% penetration) and motorcycles (70% penetration), with Minda Kosei Aluminium Wheels (2.7 mn units capacity) commanding ~45% market share among PVs. The 2-W segment is highly competitive, with low cost imports (no anti-dumping duty unlike PVs) & sister arms of 2-W OEMs dominating the landscape.

SSWL: Credible player; presence in legacy, emerging pockets

As of FY19, CVs cornered largest share of revenue (42%), followed by PVs (26%), tractors (15%), 2-W/3-W (5%) and others (12%). Alloy wheel segment revenues amounted to < ₹ 100 crore in FY19. Aesthetic appeal of alloy wheels and enhanced ride quality is expected to drive increasing migration from steel wheel rims. Consequently, the company expects revenues from this emerging pocket to each ~ ₹ 500 crore by FY22E. Exports form 10% of overall revenues, with the company serving the US commercial vehicle and high speed trailer segment as well as clients in Europe and Japan. Tata Steel (~7%), Sumitomo/Nippon Steel (~5.5%) & alloy wheel technology partner Kalink (1.3%) are SSWL strategic partners and shareholders. At CMP, SSWL trades at ~20x P/E & ~0.8x P/B on FY20E basis, with debt to equity at 1.5x.

Exhibit 1: Financial Summary

Key financials	FY15	FY16	FY17	FY18	FY19
Sales	1,152.8	1,181.9	1,330.0	1,518.2	2,041.2
EBITDA (excluding other income)	107.6	145.3	164.8	200.2	246.0
EBITDA margin (%)	9.3	12.3	12.4	13.2	12.1
PAT	39.4	61.2	55.7	75.1	82.4
EPS (₹)	25.8	40.1	35.8	48.3	52.8
P/E (x)	14.2	9.2	10.2	7.6	6.9
RoNW (%)	11.4	15.1	12.1	14.1	13.1
RoCE (%)	9.2	11.8	10.9	10.4	12.0

Source: ICICI Direct Research, Capital line



Steel Strips Wheels Limited

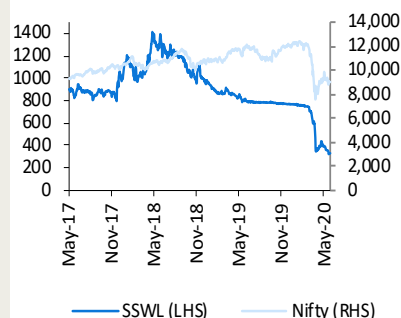
Particulars

Particulars	Amount
Market capitalisation (₹ crore)	514.5
Debt (FY 19, ₹ crore)	988.0
52 Week High/Low (₹)	830/326
Promoter holding (Mar 2020, %)	62.9
FII Holding (Mar 2020, %)	0.6
DII Holding (Mar 2020, %)	0.4
Face value (₹)	10.0

Key highlights

- Leading player in domestic wheel rim industry (industry size ~ ₹ 8,200 crore), with presence in legacy steel wheel rims as well as emerging alloy wheel rims segments
- Serves PV, CV, 2-W, tractor and OTR segments domestically and CV, high speed trailer segment in the US
- Increasing penetration of alloy wheels in PVs and opportunity created by imposition of anti-dumping duty on Chinese products in the USA slated to be future growth engines

Price Chart



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Other highlights of our interaction

Industry

Exhibit 2: Wheel rim industry – Unit economics

Segment	ASP (wheel rim, ₹)	ASP (vehicle, ₹)	Weight (rim, kg)	Margins
2-W	250-300	500-600	2.5	10-11%
2-W (alloy)	500-600	1,000-1,200	3.0	
Passenger car	600-700	3,000-3,500	5-7	10-11%
UV	1,000-1,200	5,000-6,000	9-10	10-11%
PV (alloy)	3,200-3,500	11,000-15,000	8-9	17-20%
M&HCV	3,500	35,000 (assuming 10 wheels)	45	
3-W	400	1,600		

Source: Company, ICICI Direct Research

- PV alloy wheels business is highly capex intensive, with maximum asset turnover of 1.2-1.3x across players. As a result, it enjoys better pricing support from OEMs (~17-20% normal margins)
- Alloy wheel penetration is at ~20% for Maruti Suzuki, ~70% for Hyundai and ~50% for Suzuki Motorcycles
- 'High vent hole' wheels are a new innovation in the industry, with OEMs increasingly preferring them for mid-priced variants of models (alloy wheels for higher priced variants, steel wheels for lower priced variants). High vent hole wheels feature a specialised cap, and provide similar aesthetic appeal to alloy wheels at a far lower price point (~₹ 1,500 per unit vs. ~₹ 3,500 per unit for alloy wheel and ~₹ 700-1,000 per unit for steel wheel).

SSWL business

- As of FY19, PV, CV, 2-W, tractors formed ~53%, ~16%, ~22%, ~9% of overall volumes with ASPs for the same at ~₹ 627, ~₹ 3,300, ~₹ 292, ~₹ 2,264, respectively
- SSWL's wallet share with Maruti Suzuki is at 52%, while the same with M&M, Tata Motors (M&HCV) and Hyundai is at 56%, 70% and 48%, respectively
- SSWL incurred a capex of ~₹ 350 crore for the alloy wheel plant with a capacity of 1.5 mn units per annum. SSWL is confident of achieving ~0.85-1 mn units in sales in FY21E and 1.5 mn units in FY22E
- It has signed a long term agreement with Hyundai and Kia, with peak demand scheduled for October 2020 at 1.7 lakh alloy wheels per month. It is as yet undecided on incurring capex for the same as of date
- SSWL obtains ~75-80% of its steel requirements from Tata Steel, enjoys pricing benefit due to its bulk purchase and close linkages to the company
- SSWL sees the contribution of exports to overall revenues growing to 25-30% in coming years by capitalising on imposition of anti-dumping duty on Chinese imports in that geography. Currently, STESW exports 100,000 units per month (up from 10,000 units three months ago) to the geography (overall market of 10 million units per annum)
- Promoter pledging in STESW is at ~50% with promoters intending to reduce it substantially over the next three to five months. STESW shares were pledged for raising debt for promoter's other material entity, Indian Acrylics

Exhibit 3: New business won

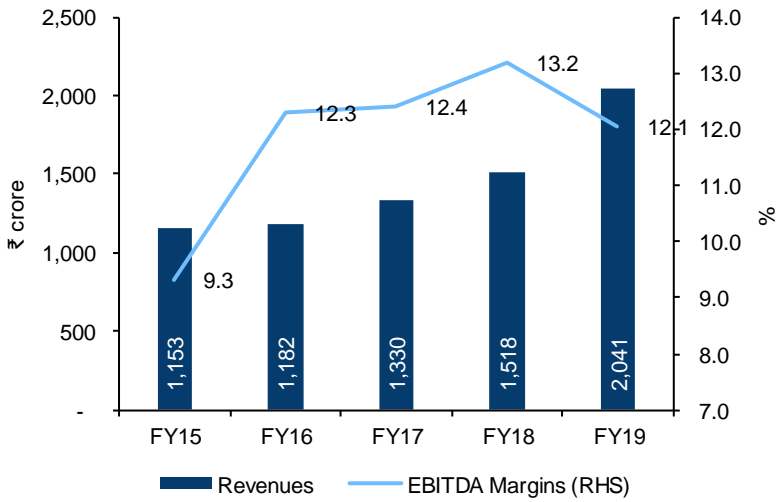
Steel	
100%	S-Cross, Brezza , Baleno , Ciaz, Mobilio, WRV, Altroz, Tigor (electric), Lodgy, Xcent, KUV 100, TUV 300, XUV300 , XUV 500, Marazzo, Verito, VMT, Triber, Venu
95%	S-Presso, Celerio (90%)
80%	Grand i10, Datsun Go Plus, Sunny (75%)
60%	Kicks, Scorpio (56%)
50%	Jazz, City, Amaze, Zest/Bolt, Verna (40%)
Alloy	
100%	TUV, Alturas, Creta , Carnival , Aspire, Datsun Go Plus, Kicks, Harrier, Tigor
50%	Seltos , Altroz, Tiago, Nexon
40%	Grand i10, Venu

The company is present in most major Maruti Suzuki models except Swift family

Source: Company, ICICI Direct Research

Story in Charts

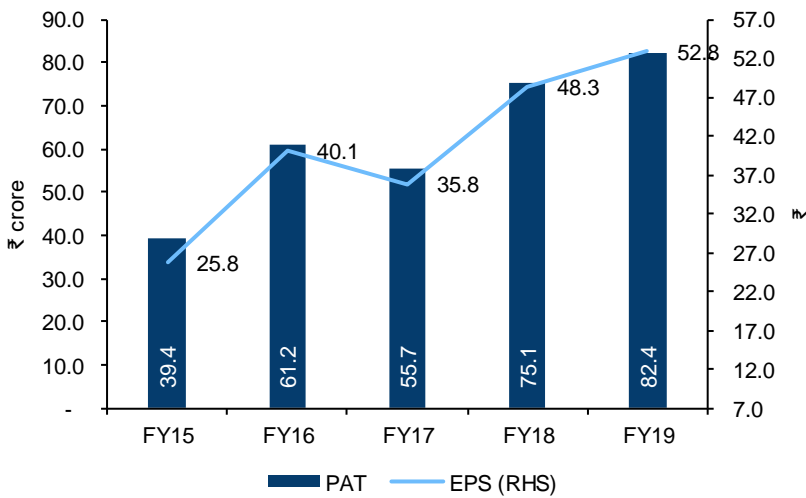
Exhibit 4: Revenue, EBITDA margin trend



Revenues have grown at ~19% CAGR over FY10-19, with margins remaining steady around the 12% mark over last few years

Source: ICICI Direct Research, Capital line

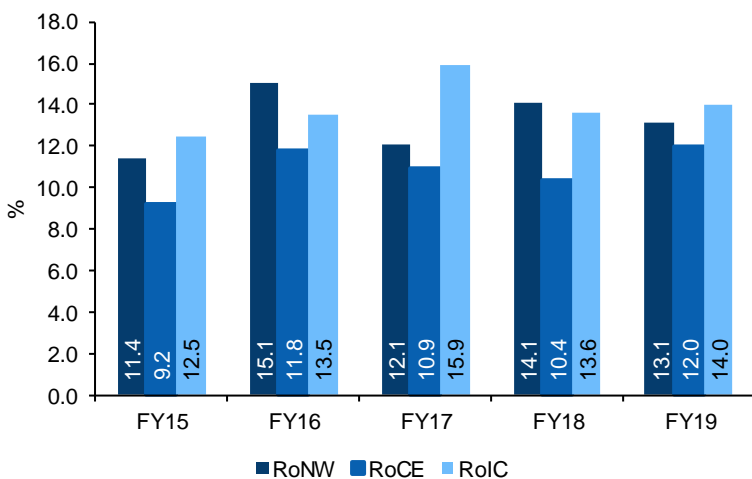
Exhibit 5: PAT, EPS trend



PAT CAGR over FY10-19 is impressive at ~21%

Source: ICICI Direct Research, Capital line

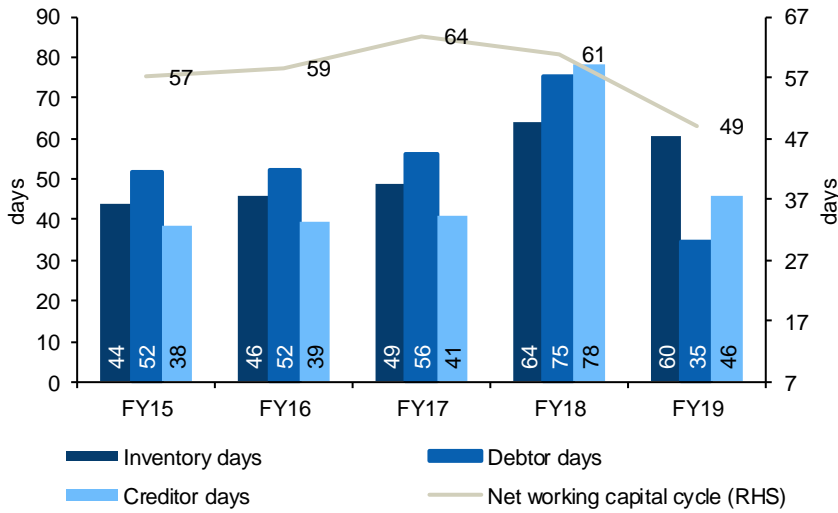
Exhibit 6: RoE, RoCE & RoIC trend



Return ratio has remained in the early double digit territory over the last few years amid continuous capex and sizeable debt levels

Source: ICICI Direct Research, Capital line

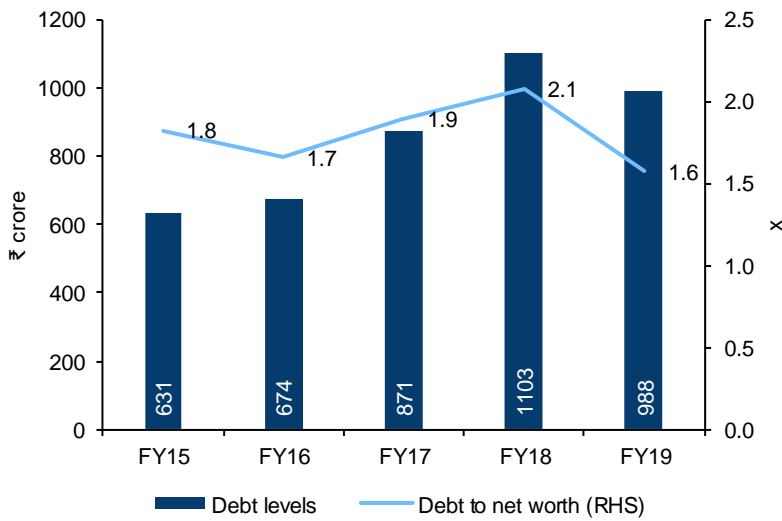
Exhibit 7: Working capital cycle trend



Net working capital cycle dipped healthily in FY19 to ~49 days. However, it has hovered around 60 days generally

Source: ICICI Direct Research, Capital line

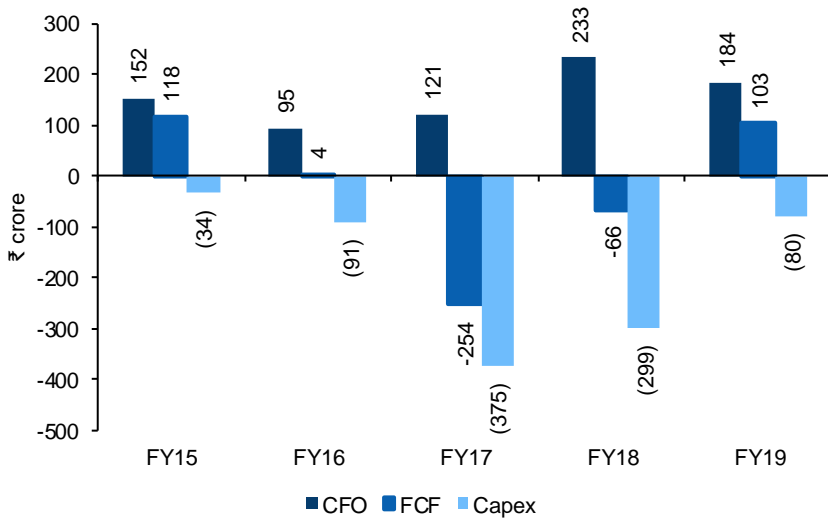
Exhibit 8: Trend in debt levels



Debt to net worth levels have remained between 1.5x and 2x over last few years

Source: ICICI Direct Research, Capital line

Exhibit 9: Trend in CFO and FCF generation

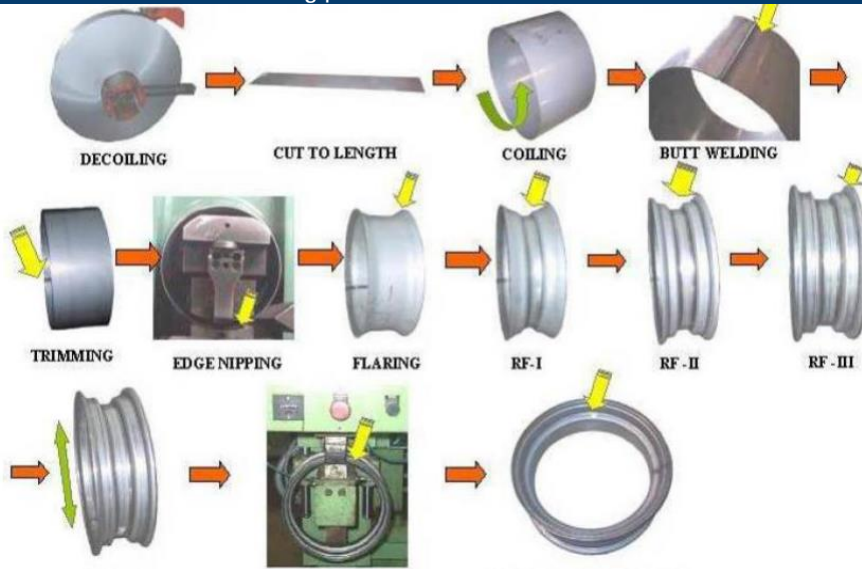


While the company has a consistent track record of CFO generation, constant capex needs have meant that FCF generation has been sporadic

Source: ICICI Direct Research, Capital line

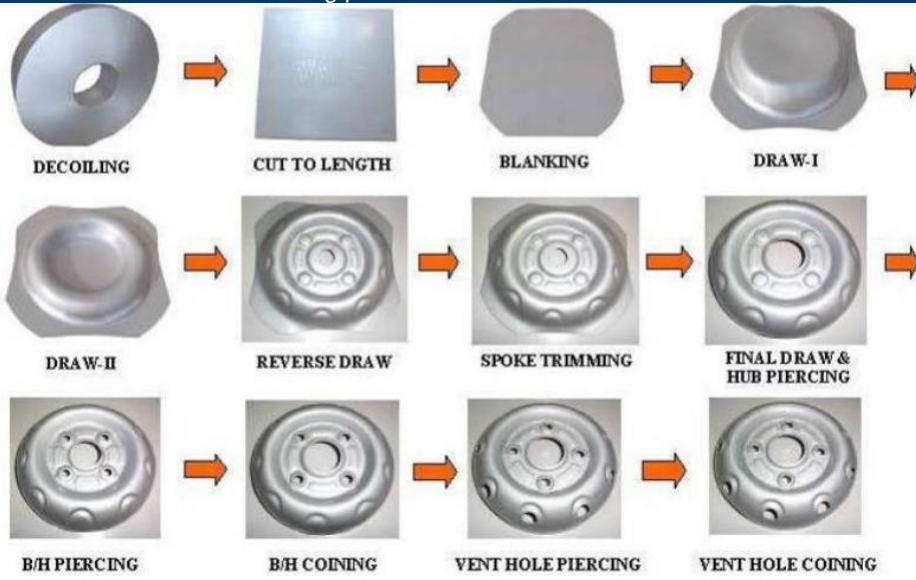
Annexures

Exhibit 10: Rim manufacturing process



Source: Company, ICICI Direct Research

Exhibit 11: Disc manufacturing process



Source: Company, ICICI Direct Research

Exhibit 12: Assembly of rim and disc



Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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