

Alloy Wheels Segment and Exports to Drive Growth

Est. Vs. Actual for Q1FY24: Revenue – **SLIGHT BEAT**; EBITDA Margin – **INLINE**; PAT – **MISS**

Change in Estimates post Q1FY24

FY24E/FY25E: Revenue: 2%/13%; EBITDA: 3%/14%; PAT: 4%/17%

Recommendation Rationale

- **Encouraging Exports in Q1FY24:** Exports volume grew by over 150% YoY in Q1FY24, indicating the desired pick-up in the export market. The company is receiving multiple RFQs from US/Europe. Exports revenue guidance is Rs 500-600 Cr in FY24, significantly up from the impacted base of Rs 292 Cr in FY23 (vs. the erstwhile base of Rs 829 Cr in FY22). For Alloy Wheels exports, the management is confident of achieving revenue of Rs 80-100 Cr in FY24 and even higher revenue of Rs 300 Cr in FY25.
- **Enhancing wheel capacity to help fulfil incremental demand:** AMW plant will aid in steel wheels capacity expansion to 27.5 Mn wheels by FY24 (from 20.5 Mn in FY23) and debottlenecking will raise the alloy wheel capacity to 4.8 Mn wheels in FY24 (from 3 Mn in FY23). The enhanced capacity of alloy wheels will start contributing from Aug'23, which will cater to additional demand and thereby drive revenue in H2FY24. Additionally, the management stated that it's very close to adding Maruti to its list of OEMs for Alloy wheels, which will provide more visibility in domestic demand.
- **EBITDA/wheel:** In Q4FY23, the management was conservative in its EBITDA/wheel guidance at Rs 250-260/wheel (flat YoY). However, with better export visibility and improving volumes in alloy wheels, the management sounded more optimistic this time and did not rule out an increase in its guidance in H2FY24. The company also hinted at a new casting automotive business (no details shared so far) and a 2W EV business which will drive margins in future years (start contributing to the topline from Q4FY24).

Company Outlook & Guidance: The company maintained its earlier guidance for volume sales growth at 12-15% YoY in FY24 and revenue at ~Rs 4,500 Cr (vs. ~Rs 3,560/4,040 Cr in FY22/23) on similar commodity price levels. This will be mainly led by increased alloy wheels sales, a pick up in exports, and a CV upcycle. Post ongoing expansion to 4.8 Mn units, the company's Alloy Wheels capacity will increase further to 10 Mn units in the next 3-5 years.

Current Valuation: 6.0x Jun'25 EV/EBITDA (**Earlier valuation:** 5.3x FY25E EV/EBITDA)

Current TP: Rs 240/share (**Earlier TP:** Rs 165/share)

Recommendation: We **maintain** our BUY rating on the stock based on a richer product mix (alloy wheels, exports, CV) and improvement in EBITDA/wheel in FY25.

Financial Performance

Steel Strips Wheels Ltd (SSWL) reported a mixed set of numbers for Q1FY24. Revenue stood at Rs 1,044 Cr (up 3%/4% YoY/QoQ), a slight 2% beat on estimates, which was mainly led by higher overall volumes (partially offset by lower ASP due to softening in commodity prices). SSWL reported EBITDA of Rs 113 Cr (up 3%/4% YoY/QoQ), which stood in line with our estimates (despite a higher topline). This was mainly due to adverse raw material costs (3% higher than estimates) and higher personnel costs (9% higher than estimates), which was only partly offset by lower other operating expenses (3% below estimates). The company's PAT stood at Rs 47 Cr (down 1% YoY but flat QoQ). This was a 10% miss from our estimates which was largely on account of an increase in interest costs (29%/4% higher on a YoY/QoQ basis) which was 25% above our estimates and a higher effective tax rate of 33% vs. our assumption of 30%.

Outlook

We now factor in higher volumes in FY24/25E at 19.9 Mn and 22.6 Mn units respectively. This is on account of an expansion of the company's Alloy wheel capacity as well as more clarity on the AMW ramp-up. With alloy wheels and exports share increasing, we revise our EBITDA upwards for FY24/25E by 3%/14% respectively. We forecast revenue/EBITDA/PAT growth of 17%/25%/43% CAGR over FY23-25E.

Valuation & Recommendation

With a focus on fulfilling export demand from the US and Europe, ramping up of Alloy wheels division, AMW ramp-up capitalising on the longish CV upcycle, and incremental demand from the Motor+Controller EV business, we now value the stock at 6.0x EV/EBITDA (from 5.3x) on our Jun'25 EBITDA (vs. FY25E EBITDA). We maintain our BUY rating on the stock with a revised TP of Rs 240/share (from Rs 165/share earlier), implying an upside potential of 15% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,044	4%	3%	1,020	2%
EBITDA	113	4%	3%	113	0%
EBITDA Margin	10.8%	3	6	11.1%	-27
Net Profit	47.6	1%	-1%	53.2	-10%
EPS (Rs)	3.0	1%	-1.5%	3.4	-10.5%

Source: Company, Axis Securities

(CMP as of 17th July 2023)

CMP (Rs)	209
Upside /Downside (%)	14%
High/Low (Rs)	228/126
Market cap (Cr)	3,263
Avg. daily vol. (6m)Shrs. ('000)	186
No. of shares (Cr)	15.65

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	62.60	62.68	62.68
FII's	5.63	5.63	5.63
MFs / UTI	0.13	0.21	0.21
Fin Inst./Banks	0.01	0.01	0.01
Others	31.63	31.47	31.47

Financial & Valuation

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	4,041	4,568	5,542
EBITDA	443	524	687
Net Profit	194	264	395
EPS (Rs.)	12.4	16.9	25.3
PER (x)	12.0	12.4	8.3
EV/EBITDA (x)	5.7	6.5	4.8
P/BV	2.1	2.4	1.9
RoE (%)	18.4	20.8	25.0

Change in Estimates (%)

Y/E Mar	FY23	FY24E	FY25E
Sales	0%	2%	13%
EBITDA	0%	3%	14%
PAT	0%	4%	17%

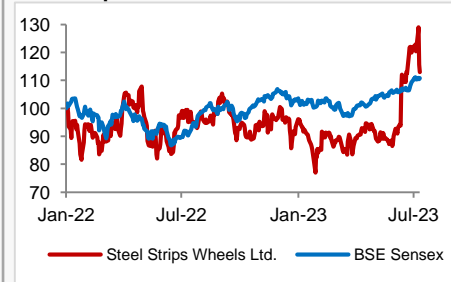
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure	NA
Sector Average	46.4

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies

Relative performance



Source: Ace Equity, Axis Securities.

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Key Concall Highlights

- **Q1FY24 operational performance:** Aluminium Alloy wheels sales volume grew by 4.5% YoY, and management sees a progressive increase in future quarters as capacity increases. **Exports** grew by 157% YoY, the **domestic CV** segment grew by 11.6% YoY, **Tractors** de-grew by 8% YoY, **2W/3W** grew by 4.5% YoY and the **PV steel wheels** segment de-grew by 14% as the company exited from a couple of low EBITDA margin (4-5%) business of Maruti. Management said, with the general input cost inflation over the last couple of years, it exited this low-margin business. Overall blended sales volume stood at 4.6 Mn units up 8% YoY.
- **Employee cost:** In Q1FY24, the employee expenses were higher mainly due to i) the company hired 60 new employees in R&D for future expansion and for new businesses which incurred additional expenses of Rs 1.16 Cr ii) ESOPs to employees amounting to Rs 2.7Cr iii) Rs 1 Cr on 2W EV business (company did not capitalize this expense despite these being equivalent to future investments) and iv) 8% YoY increment in salary bill for existing employees in FY24.
- **New Businesses:** Reddler and automotive casting business (management has not divulged many details) will be margin accretive business and they will start contributing to revenue from Q4FY24 onwards.
- **AMW Auto Components:** NCLT has reserved its order, and the company will get the order anytime in the next 2 weeks and it will take over the plant post that. Management stated that the ramp-up will be gradual but they will use the plant for CV domestic and exports orders.
- **Order books:** Despite the higher competitive intensity in the alloy wheel space, the company's domestic alloy wheels order books are full until FY26 for existing OEMs as the company is the lowest cost producer of Aluminum wheels in the world and it ranks in the top 5 in terms of quality. Its CV order book is also sold out, while tractors and PV have a scope to grow.
- Management informed that the Anti-circumvention duty in Vietnam for steel wheel exports will reduce the competitive intensity in exports.
- **Promoters' pledged equity shares** have been reduced from 5.78% to 4.66% of the total paid-up capital of the company.
- **Debt:** The company's total debt including working capital is Rs 638 Cr in FY23 against Rs 777 Cr in FY22. The total long-term debt has been reduced by Rs 152 Cr and stands at Rs 222 Cr in FY23. D/E stands at 0.52x and the management expects to repay Rs 60 Cr in FY24.

Key Risks to our Estimates and TP

1. Export Recovery to be monitored.
2. Increased competition from peers like Wheels India and Minda Kosei.

Change in Estimates

	Revised			Old			% Change		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Sales	4,041	4,568	5,542	4,041	4,468	4,921	0%	2%	13%
EBITDA	443	524	687	443	510	605	0%	3%	14%
PAT	194	264	395	194	254	337	0%	4%	17%

Source: Company, Axis Securities

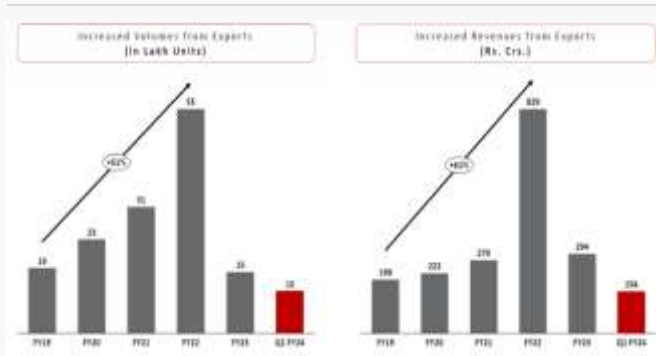
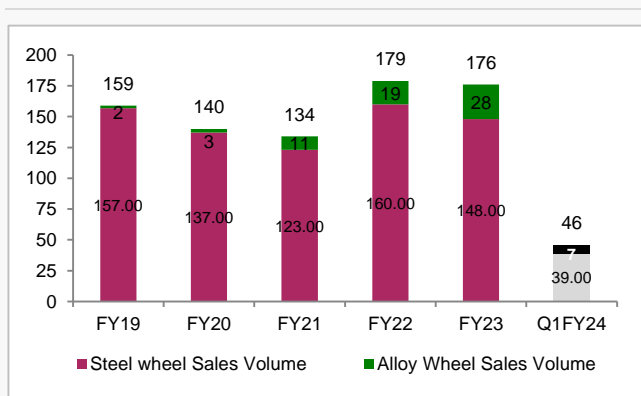
Q1FY24 Results Review

(Rs Cr)	Q1FY24	Axis Sec Estimates	Axis Sec Var (%)	Q4FY23	QoQ growth (%)	Q1FY23	YoY growth (%)
Sales	1,044	1,020	2%	1,005	4%	1,016	3%
Other Op. Inc	0.0	0.0		0.0		0.0	
Total Revenue	1,044	1,020	2%	1,005	4%	1,016	3%
Net Raw Material	675	653	3%	659	2%	679	-1%
Employee expenses	88	81	9%	79	12%	65	35%
Other Exp	168	173	-3%	159	6%	162	4%
Total Expenditure	931	907	3%	896	4%	907	3%
EBIDTA	113	113	0%	108	4%	109	3%
EBITDA Margins (%)	10.8%	11.1%	-27	10.8%	3	10.8%	6
Other Income	4.2	2.2	92%	6.7	-37%	0.0	14841%
Interest	23.6	18.8	25%	22.7	4%	18.2	29%
Depreciation	22.4	20.5	9%	20.0	12%	20.1	12%
Exceptional Item	0.0	0.0	NA	0.0	NA	0.0	NA
PBT	71	76	-6%	73	-2%	71	0%
Tax	23.6	22.8	4%	25.2	-6%	22.9	3%
Tax Rate (%)	33%	30%		35%		32%	
PAT	47.6	53.2	-10%	47.3	1%	48.1	-1%
Adj EPS (Rs.)	3.03	3.4	-11%	3.0	1%	3.1	-1.5%
Ratios	Q1FY24	Axis Sec Estimates	Change in Bps	Q4FY23	Change in Bps(QoQ)	Q1FY23	Change in Bps(YoY)
GM%	35.4%	36.0%	-61	34.5%	93	33.1%	225
NP%	4.6%	5.2%	-65	4.7%	-15	4.7%	-18
personnel Cost % to Sales	64.6%	64.0%	61	65.5%	-93	66.9%	-225
Other Expenses % to Sales	8.5%	7.9%	54	7.8%	64	6.4%	203

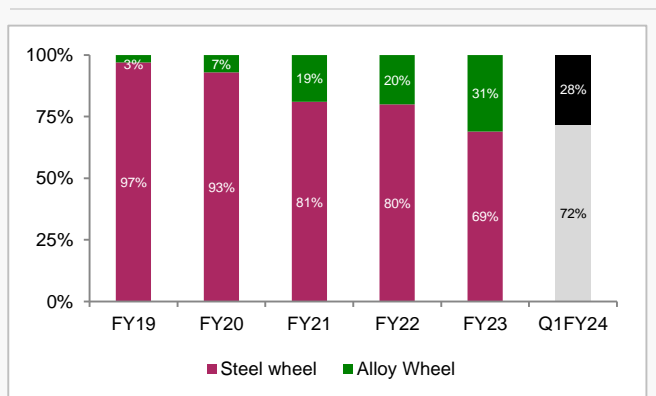
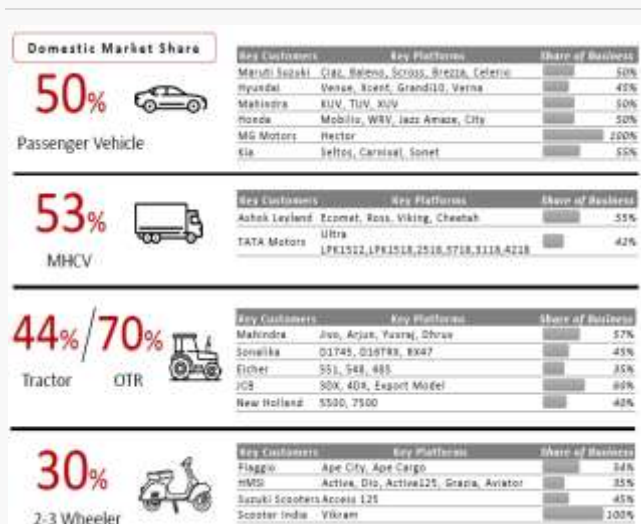
Source: Company, Axis Securities

Exhibit 1: Shift of Sales Mix to High Margin Alloy Wheels


Source: Company

Exhibit 2: Shift of Sales Mix to High Margin Exports Segment

Exhibit 3: Volumes: Steel & Alloy Wheels (in Lacs)


Source: Company

Exhibit 4: Contribution to Sales (in %)

Exhibit 5: Domestic Market Share


Source: Company

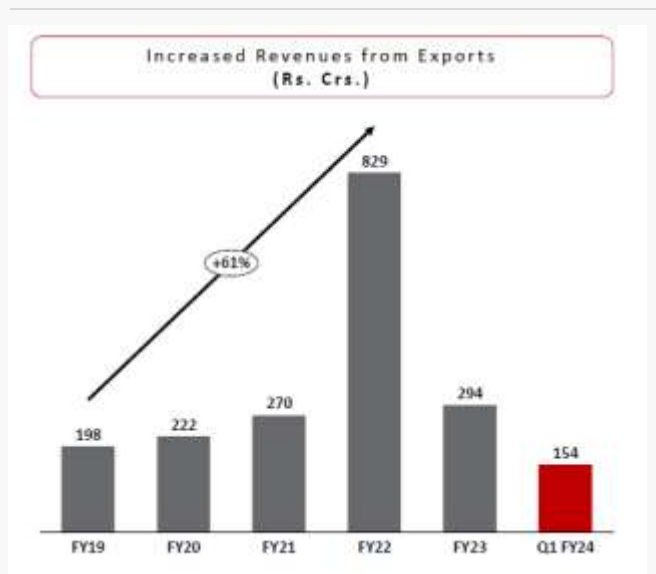
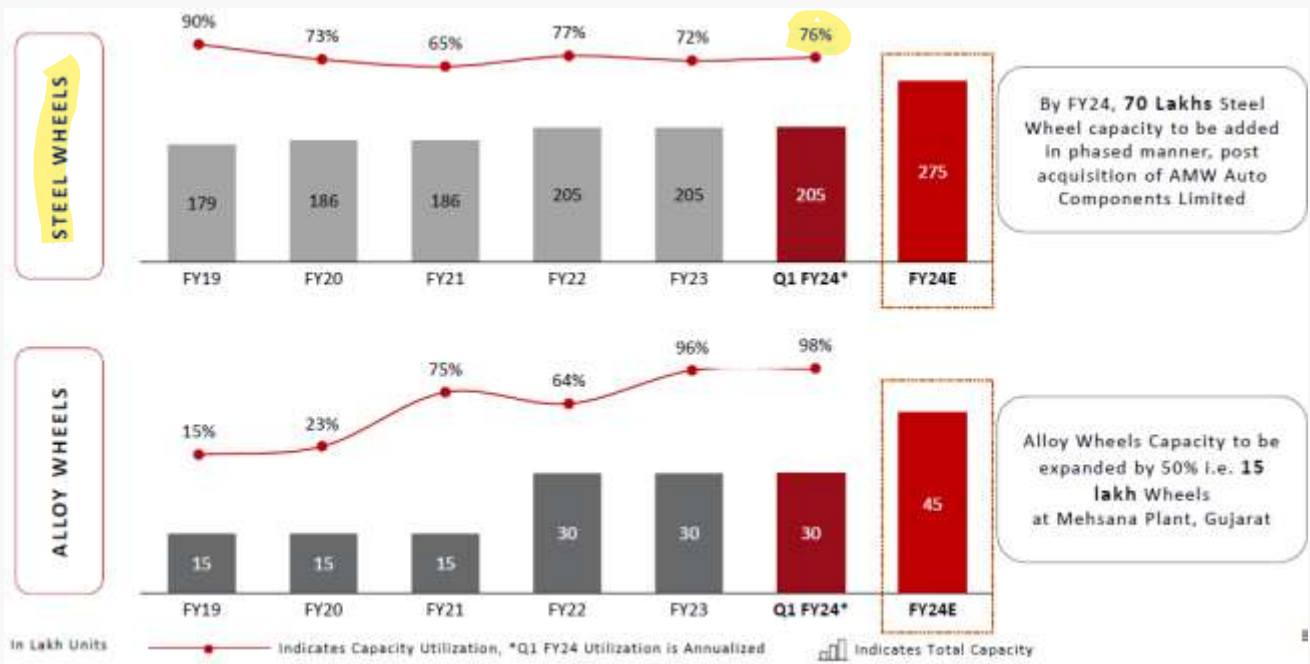
Exhibit 6: Exports Revenue


Exhibit 7: Product Capacities & Utilization


Source: Company

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Net sales	3,560	4,041	4,568	5,542
Other operating income	0	0	0	0
Total income	3,560	4,041	4,568	5,542
Cost of goods sold	2,897	3,403	3,825	4,589
Contribution (%)	18.6%	15.8%	16.3%	17.2%
Advt/Sales/Distrn O/H	210.4	195.1	219.6	266.0
Operating Profit	453	443	524	687
Other income	13	12	11	12
PBIDT	466	455	534	699
Depreciation	77	80	86	97
Interest & Fin Chg.	85	84	82	74
E/o income / (Expense)	0	0	0	0
Pre-tax profit	304	291	366	529
Tax provision	98	97	102	133
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Reported PAT	205	194	264	395

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Total assets	1,999	2,043	2,254	2,609
Net Block	1,360	1,349	1,576	1,704
CWIP	97	163	150	75
Investments	0.2	4.1	4.1	4.1
Wkg. cap. (excl cash)	484	483	461	705
Cash / Bank balance	58	44	62	121
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	1,999	2,043	2,254	2,609
Equity capital	16	16	16	16
Reserves	936	1,119	1,367	1,747
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	876	737	697	657
Def Tax Liabilities	171	172	173	189

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Sources	301	125	296	452
Cash profit	368	358	432	566
(-) Dividends	3	16	16	16
Retained earnings	365	342	417	550
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	3	0	0	0
Borrowings	4	-146	-40	-40
Others	-71	-71	-80	-58
Applications	301	125	296	452
Capital expenditure	146.5	182.6	300.0	150.0
Investments	0.0	4.0	0.0	0.0
Net current assets	149.7	(42.6)	(31.7)	243.5
Change in cash	4.7	(19.0)	27.8	58.9

Source: Company, Axis Securities

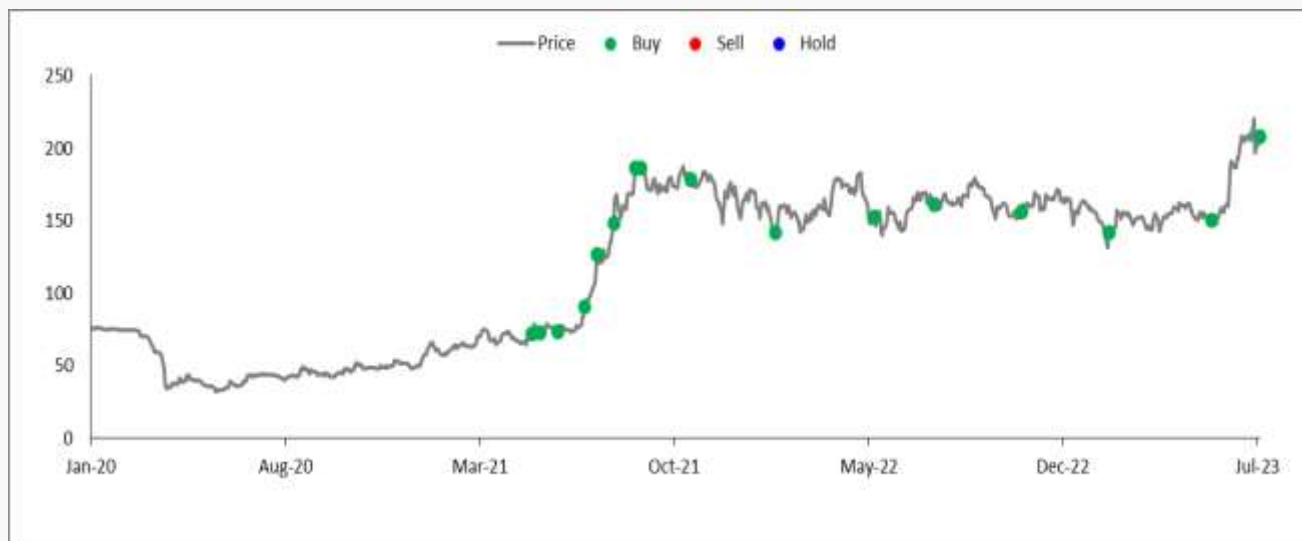
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24E	FY25E
Sales growth	103.5	13.5	13.0	21.3
OPM	12.7	11.0	11.5	12.4
Oper. profit growth	122.2	(2.2)	18.2	31.2
COGS / Net sales	81.4	84.2	83.7	82.8
Overheads/Net sales	5.9	4.8	4.8	4.8
Depreciation / G. block	3.7	3.7	3.5	3.6
Effective interest rate	10.0	10.7	12.0	11.4
NPM	5.8	4.8	5.8	7.1
Net wkg.cap / Net sales	0.10	0.10	0.08	0.09
Net sales / Gr block (x)	1.7	1.9	1.8	2.1
RoCE	27.0	24.4	26.8	30.8
Debt / equity (x)	0.90	0.62	0.48	0.36
Effective tax rate	32.3	33.5	27.9	25.2
RoE	24.1	18.4	20.8	25.0
Payout ratio (Div/NP)	1.5	8.1	5.9	4.0
EPS (Rs.)	13.1	12.4	16.9	25.3
CEPS (Rs.)	18.0	17.5	22.4	31.5
DPS (Rs.)	0.2	1.0	1.0	1.0

Source: Company, Axis Securities

Steel Strips Wheels Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
03-Apr-21	BUY	88	Top Picks
03-May-21	BUY	88	Top Picks
12-May-21	BUY	91	Result Update
01-Jun-21	BUY	91	Top Picks
01-Jul-21	BUY	99	Top Picks
14-Jul-21	BUY	123	Result Update
02-Aug-21	BUY	167	Top Picks
26-Aug-21	BUY	212	Result Update
01-Sep-21	BUY	212	Top Picks
26-Oct-21	BUY	215	Result Update
31-Jan-22	BUY	215	Result Update
18-May-22	BUY	200	Result Update
25-Jul-22	BUY	190	Result Update
28-Oct-22	BUY	174	Result Update
31-Jan-23	BUY	160	Result Update
29-May-23	BUY	165	Result Update
18-Jul-23	BUY	240	Result Update

About the analyst

1. **Sr Research Analyst: Aditya Welekar** is a PGDBM in Finance with 12 years of experience in Equity Market/Research.

2. **Research Associate: Shridhar Kallani** is a Chartered Accountant and a graduate from St.Xaviers College Kolkata.

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HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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