

Steel Strips Wheels Ltd

Back in its magical charm phase, BUY!

Results were below estimates, however healthy margin improvement and 39% reduction in long-term in YTD FY23 is praiseworthy. We continue to expect further debt reduction in the coming months owing to strong cash flow generation. The margins too will be supportive and inching-up largely led by increasing contribution from its high value businesses viz. CVs, alloy wheels and exports. This, along with reverse pass-on of commodity from OEMs to ancillary has always remained beneficiary in EBITDA margin improvement. SSWL is adding new growth projects to add further wings to fly higher that includes getting into motors, controllers (JV signing in a few weeks with Israel's Redler) and light weighting casting products (traction expected from FY25 onwards). Exports bottomed out, as green shoots are visible, alloys demand is healthy in domestic and the CV business is placed perfectly well to get benefits from the ongoing CV upcycle. We expect QoQ every quarter will be better from heron and maintain BUY rating for TP of 222 apiece due to the expectation of a continued turnaround in the company's financials.

Q3FY23 result analysis – margin improvement & debt reduction is real

- Revenues Rs9.38bn (+9.1% YoY & -13.2% QoQ), Gross margin 37.1% (-366bps YoY & +515bps QoQ), EBITDA margin 11.5% (-89bps YoY & +66bps QoQ), PAT Rs438mn (+2.5% YoY & -19.9% QoQ). EBITDA for Q3FY22 includes one-time inventory gain of Rs100mn vs. loss of Rs110mn in Q3FY23.
- Numbers were below estimates, however Gross & EBITDA margin improvement is commendable owing to the combination of the increase in high margin businesses viz. CVs (+400bps QoQ to 33%) & Alloy wheels (+170bps QoQ to 35%), and benefits of soft commodity prices. SSWL prepaid its long-term debt further in Jan '23 of Rs262.5mn, which takes its long-term debt to Rs2.27bn (vs. Rs3.74bn as on 31st Mar '22), a roaring decline of 39% in 10 months. Expect further prepayment in the long-term debt in the coming two months & traction to continue in the coming years as well.

Alloys & CV are in the best phase, exports bottomed out

- Exports to see better numbers starting Q4FY23 as energy prices dropped & international markets are flashing green signals. The management targets to double exports in FY24e on a low base.
- At present, alloy wheels are running at full utilization due to high demand of SSWL's LPDC technology. The capacity is expected to increase from 3.0mn to 4.5mn by Jun '23.
- Globally, the demand for alloy wheels is enormous, SSWL to start exporting alloy wheels not only to the aftermarket, but also to OEMs as it already has good relationships with them.
- Additionally, domestic alloy wheels traction continues to remain healthy. We expect alloy wheels volume to grow atleast by 15% CAGR in the coming years.
- CV business to report its best ever quarter in Q4FY23 due to good orders in hand. SSWL is a leader in MHCVs, and is a clear beneficiary of the ongoing CV upcycle. Expect ~20% CAGR FY22-FY25e.

Margin improvement is inevitable due to improving the mix

- The combination of its high margin businesses viz. alloy wheels, CVs and exports contribution is inching-up. This, along with benefits of soft commodity prices & operating leverage to lift-up EBITDA margin in the coming quarters.
- Although, the potential for margin improvement holds very strong, however we anticipate a gradual expansion in EBITDA margin from 11.3% in FY23e to 12.3% by FY25e.

Y/E Mar (Rs Mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23e	Var. (%)
Total Income	9,384	8,605	9.1	10,811	(13.2)	10,333	(9.2)
Gross margin (%)	37.1	40.8	(366) bps	32.0	515 bps	-	-
EBITDA	1,079	1,066	1.2	1,172	(7.9)	1,134	(4.9)
EBITDA margin (%)	11.5	12.4	(89) bps	10.8	66 bps	11.0	52 bps
Other income	20	17	20.5	36.4	(43.9)	-	-
PBT	677	656	3.2	800	(15.4)	-	-
Taxes paid	239	229	4.5	254	(5.7)	-	-
Effective tax rate (%)	35.3	34.9	43 bps	31.7	363 bps	-	-
Reported PAT	438	427	2.5	546	(19.9)	509	(13.9)
PAT margin (%)	4.7	5.0	(30) bps	5.1	(39) bps	4.9	(26) bps

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	17,494	11.9	2,038	11.6	493	110.0	3.2	6.8	6.8	15.5	8.1
FY22	35,600	103.5	4,528	12.7	2,055	317.2	13.2	24.2	15.2	10.6	6.4
FY23e	40,839	14.7	4,602	11.3	2,033	-1.0	13.0	19.4	14.9	10.9	6.1
FY24e	45,025	10.2	5,299	11.8	2,606	28.2	16.7	20.6	16.1	8.5	5.0
FY25e	47,951	6.5	5,883	12.3	3,550	36.2	22.7	23.0	19.2	6.3	3.9

Source: Company, SMIFS research estimates



Rating: **Buy** Upside: **56%**

Current Price: **142** Target Price: **222**

Earlier recommendation

Previous Rating:	Buy
Previous Target Price:	224

Market data

Bloomberg:	SSW: IN
52-week H/L (Rs):	190/126
Mcap (Rs bn/USD bn):	20.1/0.3
Shares outstanding (mn):	156.5
Free float:	20.0%
Daily vol. (3M Avg):	0.1mn
Face Value (Rs):	1.0

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	62.6	62.6	62.6	62.8
FII's	0.2	0.1	0.07	0.1
DII's	0.6	0.4	0.4	0.4
Public/others	36.6	36.9	36.9	36.7

Source: BSE

Promoters pledging (%)

Promoters pledged shares	13.9	19.5	17.6	19.5
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Source: BSE

Price performance (%)

	1M	3M	12M	36M
Nifty 50	-2.5	-1.9	1.9	47.7
Nifty 500	-3.3	-3.2	0.1	51.5
SSWL	-10.8	-11.6	-5.1	88.0

* As on 31st Jan 2023; Source: AceEquity, SMIFS research

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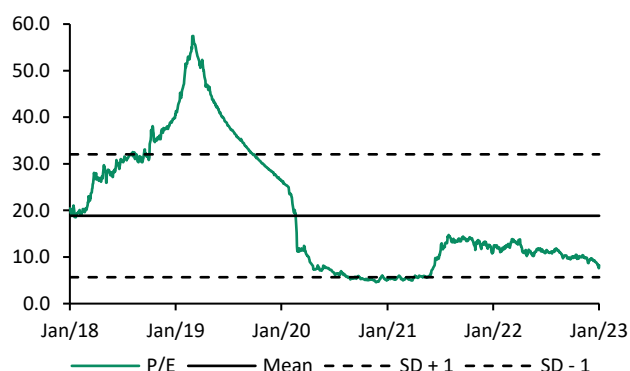
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Outlook and Valuations

Growth drivers intact, valuation inexpensive

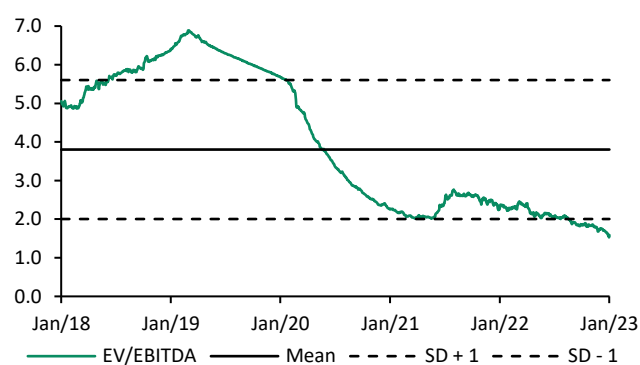
- SSWL RoE improved substantially to 24% in FY22 (vs. 7% in FY21) and is trading very attractively at 3.9x FY25e EBITDA. The company is a clear re-rating candidate due to aggressive growth plans ahead, mix is trending towards high margin businesses and a superior return profile.
- We have valued the company by assigning EV/EBITDA multiple of 6.0x (reduced from 6.5x) to FY25e EBITDA of Rs 5,883mn (rollover from Sep '24e) to arrive at a target price of Rs 222 per share. Marginally tweaked estimates & reduced multiple a bit due to uncertainty.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

Changes in estimates

Rs mn	New estimates			Old estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Revenue	40,839	45,025	47,951	41,946	47,749	52,677	-2.6%	-5.7%	-9.0%
Gross profit	14,217	15,764	16,885	13,742	15,739	17,469	3.5%	0.2%	-3.3%
Gross margin (%)	34.8	35.0	35.2	32.8	33.0	33.2	205 bps	205 bps	205 bps
EBITDA	4,602	5,299	5,883	4,609	5,486	6,315	-0.2%	-3.4%	-6.8%
EBITDA margin (%)	11.3	11.8	12.3	11.0	11.5	12.0	28 bps	28 bps	28 bps
PAT	2,033	2,606	3,550	2,045	2,720	3,834	-0.6%	-4.2%	-7.4%
EPS (Rs)	13	17	23	13	17	25	-0.1%	-4.3%	-7.8%

Source: Company, SMIFS research estimates

Q3FY23 – Key takeaways from the management call

Guidance

- To see highest ever CV sales for the company in Q4FY23.
- Expect 15% volume growth in the coming year from exports, alloys and CVs.
- FY23e revenue Rs41bn, FY24e Rs50bn driven by increased exports, alloy wheels and CV business.
- SSWL will move to the new tax regime starting FY25e.
- Expect ROCE at 25% in FY24e, largely due to improvement in the mix.
- AMW acquisition delayed by court proceedings, the plant's possession is expected by April/May '24.

Exports

- FY23 exports impacted due to higher inventory with dealers over there & high-energy prices, however, expected to recover to ~Rs800mn in Q4 and ~Rs6bn in FY24e.
- Markets in international countries started picking up, and energy prices dropped.
- The target is to double export sales in FY24e.
- Exports to double from the US and Europe in coming years.

Alloy wheels

- At present running at a full utilization level. Capacity will expand to 4.5mn wheels per annum by Jun '23.
- To start alloys exports in full-fledge not only to the aftermarket, but also to OEMs, which would be bigger chunk of sales.

New businesses

- To start a new aluminum casting business for passenger vehicles. This product is import substitution, and SSWL received positive response from OEMs.
- To finalize agreement with Redler technologies for motor controller business in 2-3 weeks. Expect JV agreement to close in 2-3 weeks' time, and aims to start production in 10 months' time.
- In future, SSWL to start selling the combination of Wheels + Motors + Controllers. The company will be the only one in India to do this.
- New products are technology driven, hence margins will be higher.
- The company is covered under the PLI for EV products, and the benefit should start by FY25e.

Margin

- There was an inventory gain of Rs600mn in 9MFY22 vs. Rs110mn loss in 9MFY23, adjusted EBITDA is much better.
- EBITDA margins of 12%+ on a conservative basis expected in FY24e due to a higher mix of value-added products.

Capex

- Capex: FY23e Rs1.5bn, and similar for FY24e. This is excluding AMW acquisition.
- FY23 capex will spend on alloy wheels (Rs1bn), EV controllers (Rs200mn), maintenance capex (Rs300mn).
- To incur Rs1bn capex in FY25e for new casting product business.

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	6,999	6,781	9,580	8,605	10,633	10,161	10,811	9,384
Raw Materials	4,536	4,319	5,707	5,096	6,749	6,794	7,354	5,901
Employee Costs	574	474	521	555	637	652	661	739
Other Expenditure	1,027	1,010	1,982	1,888	2,133	1,621	1,624	1,666
EBITDA	861	978	1,370	1,066	1,114	1,093	1,172	1,079
Depreciation	192	176	201	202	189	201	202	202
Interest	193	197	237	225	195	182	206	220
Other Income	65	23	36	17	55	0.3	36	20
PBT	541	627	968	656	784	710	800	677
Tax	95	117	340	229	295	229	254	239
Tax rate (%)	17.6	18.6	35.1	34.9	37.7	32.2	31.7	35.3
Reported PAT	446	511	628	427	489	481	546	438
Extraordinary Items	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	446	511	628	427	489	481	546	438
YoY Growth (%)								
Revenue	80.8	463.9	136.7	64.1	51.9	49.8	12.8	9.1
EBITDA	174.0	4,081.2	175.2	62.7	29.4	11.8	(14.5)	1.2
PAT	NA	NA	347.8	48.5	9.7	(5.8)	(13.0)	2.5
QoQ Growth (%)								
Revenue	33.4	(3.1)	41.3	(10.2)	23.6	(4.4)	6.4	(13.2)
EBITDA	31.4	13.6	40.2	(22.2)	4.4	(1.8)	7.2	(7.9)
PAT	54.9	14.6	22.9	(32.0)	14.5	(1.5)	13.5	(19.9)
Margin (%)								
RMC/revenue (%)	64.8	63.7	59.6	59.2	63.5	66.9	68.0	62.9
Gross margin (%)	35.2	36.3	40.4	40.8	36.5	33.1	32.0	37.1
Employee cost/revenue (%)	8.2	7.0	5.4	6.4	6.0	6.4	6.1	7.9
Other expenses/revenue (%)	14.7	14.9	20.7	21.9	20.1	16.0	15.0	17.8
EBITDA margin (%)	12.3	14.4	14.3	12.4	10.5	10.8	10.8	11.5
PAT margin (%)	6.4	7.5	6.6	5.0	4.6	4.7	5.1	4.7

Source: Company, SMIFS research

Fig 4: Key Assumptions

Operating metrics	FY20	FY21	FY22	FY23e	FY24e	FY25e
Volumes (Mn units)	14.0	13.4	17.9	17.7	19.6	21.1
Growth (%)	-12.2	-4.4	33.9	-1.0	10.6	7.7
Blended realization/unit (Rs)	1,022	1,191	1,732	2,037	2,091	2,086
Growth (%)	-11.8	16.5	45.4	17.6	2.7	-0.2

Source: Company, SMIFS research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	17,494	35,600	40,839	45,025	47,951
Raw Materials	10,991	21,871	26,622	29,260	31,066
% of sales	62.8	61.4	65.2	65.0	64.8
Personnel	1,529	2,187	2,835	3,081	3,233
% of sales	8.7	6.1	6.9	6.8	6.7
Manufacturing & Other Expenses	2,936	7,014	6,780	7,385	7,769
% of sales	16.8	19.7	16.6	16.4	16.2
EBITDA	2,038	4,528	4,602	5,299	5,883
Other Income	163	130	78	93	252
Depreciation & Amortization	723	769	823	878	889
EBIT	1,478	3,889	3,857	4,514	5,246
Finance cost	839	854	809	606	502
Core PBT	475	2,905	2,970	3,815	4,492
Exceptional Items	0	-	0	0	0
PBT	638	3,035	3,048	3,908	4,744
Tax	146	981	1,015	1,302	1,194
Tax Rate (%)	22.8	32.3	33.3	33.3	25.2
Reported PAT	493	2,055	2,033	2,606	3,550
Minority Interest	-	-	-	-	-
Adjusted PAT	493	2,055	2,033	2,606	3,550

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	11.9	103.5	14.7	10.2	6.5
EBITDA	19.0	122.2	1.6	15.1	11.0
Adjusted PAT	110.0	317.2	(1.0)	28.2	36.2
Margin Ratio (%)					
Gross Profit	37.2	38.6	34.8	35.0	35.2
EBITDA	11.6	12.7	11.3	11.8	12.3
EBIT	8.4	10.9	9.4	10.0	10.9
Core PBT	2.7	8.2	7.3	8.5	9.4
Adj. PAT	2.8	5.8	5.0	5.8	7.4
Return Ratios					
ROE	6.8	24.2	19.4	20.6	23.0
ROCE	6.8	15.2	14.9	16.1	19.2
Turnover ratios (days)					
Gross Block Turnover (x)	0.9	1.8	1.9	1.9	2.0
Adj. OCF/ Adj. PAT (%)	173	156	152	109	120
Inventory	137	95	100	99	98
Debtors	49	33	50	49	48
Creditors	104	89	100	99	98
Cash Conversion Cycle	82	39	50	49	48
Solvency ratio (x)					
Debt-equity	1.3	0.8	0.5	0.3	0.2
Net Debt-Equity	1.2	0.8	0.5	0.3	0.0
Gross Debt/EBITDA	4.6	1.7	1.3	0.9	0.6
Current ratio	1.0	1.0	1.2	1.3	1.7
Interest coverage ratio	1.8	4.6	4.8	7.4	10.4
Dividend					
DPS (Rs.)	0.2	0.8	0.8	1.3	1.8
Dividend yield (%)	0.4	0.5	0.5	0.9	1.3
Dividend payout (%)	6.3	5.7	6.0	8.0	8.0
Per share (Rs.)					
Basic EPS (reported)	3	13	13	17	23
Adj. EPS	3	13	13	17	23
CEPS	8	18	18	22	28
BV	48	61	73	88	109
Valuation					
P/E	15.5	10.6	10.9	8.5	6.3
P/BV	1.0	2.3	1.9	1.6	1.3
EV/EBITDA	8.1	6.4	6.1	5.0	3.9
EV/Sales	0.9	0.8	0.7	0.6	0.5
Adj Mcap/Core PBT	14.9	7.3	7.4	5.7	4.3
Adj Mcap/Adj OCF	8.3	6.6	7.1	7.7	4.6

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	156	156	156	156	156
Reserves & Surplus	7,337	9,362	11,273	13,671	16,937
Shareholder's Funds	7,493	9,518	11,429	13,827	17,093
Total Loan Funds	9,372	7,779	5,829	4,829	3,329
Other non-current liabilities	2,553	2,691	3,906	3,867	4,130
Total Liabilities	19,419	19,989	21,164	22,523	24,552
Application of funds					
Gross Block	19,226	20,988	22,488	23,988	24,288
Net Block	12,592	13,596	14,273	14,895	14,306
Capital WIP	1,093	969	285	298	286
Investments	2	2	2	2	2
Other Non-Current Assets	572	403	324	328	331
Inventories	4,965	6,470	7,294	7,936	8,341
Sundry Debtors	2,571	3,923	5,594	6,044	6,306
Cash and Bank balances	532	579	175	405	2,840
Other current Assets	1,441	1,073	1,073	1,073	1,073
Total Current Assets	9,508	12,046	14,137	15,459	18,560
Sundry Creditors	4,122	6,591	7,294	7,936	8,341
Other Current Liabilities	226	436	564	522	592
Total Current Liabilities	4,349	7,027	7,857	8,459	8,933
Net Current Assets	5,160	5,019	6,279	7,000	9,627
Total Assets	19,419	19,989	21,164	22,523	24,552

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes	2,084	4,518	4,602	5,299	5,883
Net chg in working capital	(247)	5	312	(546)	80
Income tax paid	(146)	(462)	(1,015)	(1,302)	(1,194)
Cash flow from operating activities (a)	1,691	4,061	3,899	3,451	4,769
Adjusted OCF	852	3207	3090	2845	4267
Capital expenditure	(488)	(1,649)	(1,500)	(1,500)	(300)
Adjusted free cash flow	364	1,558	1,590	1,345	3,967
Cash flow from investing activities (b)	(371)	(1,535)	(1,422)	(1,407)	(48)
Debt issuance (repayment)	(603)	(1,593)	(1,950)	(1,000)	(1,500)
Interest and lease expenses	(839)	(854)	(809)	(606)	(502)
Dividend paid	-	(31)	(122)	(209)	(284)
Cash flow from financing activities (c)	(1,706)	(2,479)	(2,881)	(1,815)	(2,286)
Net chg in cash (a+b+c)	(385)	47	(404)	230	2,435

Source: Company, SMIFS research estimates

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