

STEEL STRIPS WHEELS LTD

AUTO ANCILLARY

BUY

Target Price: Rs. 850

Healthy margins despite, CV led, steep volume decline...

Steel Strips Wheels Limited (SSWL) posted revenues of Rs 344 cr (↓29% Y-o-Y, ↓5% Q-o-Q) in Q3FY20 with another quarter of dismal performance due to sharp decline in wheel volumes for CV industry (down by ~60% on YoY basis). However, margins came in at a healthy 12.4% v/s 12.8% in Q3FY19 and 11.4% in Q2FY20 due to benign commodity prices and lower employee costs (140 bps improvement). PAT was reported at Rs 6.3 cr (↓68% Y-o-Y, ↓18%Q-o-Q) on back of higher depreciation and interest costs. **The combined capacity utilization stood at 78% in Q3FY20, improving from 72% in Q2FY20.**

While CV volumes remain a concern, we like its alloy wheel traction with strong committed orders from Hyundai and Kia motors. Exports again grew by 50% YoY with nearly 6L wheels being exported (16% of overall volume). Despite uncertainty till H1FY21, we see good value in the stock at these levels and expect strong growth coming from alloy wheels and exports resulting in higher EBITDA margins and contributing to nearly 30% (up from <10% in FY19) to revenue in FY22E. We introduce FY22 estimates, cut FY20E and 21E EPS and value SSWL at 13x FY22E EPS with a price target of Rs 850 (13% upside). This stock is poised to be re-rated and a staggered BUY is recommended.

CMP : Rs.750
Potential Upside : 13%

MARKET DATA

No. of Shares : 1.56 Cr
FV (Rs) : 10
Market Cap : Rs 1176 Cr
52-week High / Low : Rs 939/ Rs720
Avg. Daily vol. (6mth) : 3,617 shares
Bloomberg Code : SSW IN
Reuters Code : STWH.BO
BSE Code : 513262
NSE Code : SSWL

Key Highlights

- **Another quarter of washout, due to hit by the CV industry downfall:** SSWL reported another quarter of volume and revenue decline (down 30% YoY) led by sharp fall in CV segment revenue (down by 61% YoY). As in the 2nd quarter of FY20, CV segment fall is much sharper than industry decline due to heavy production cuts by both Tata Motors and Ashok Leyland in November and December, to clear BS4 inventory. We believe Q4 will see some recovery as BS6 production starts ramping up for CV OEM's. Its PV segment revenue (~Rs 132 cr) remained flat YoY and QoQ, which is better than overall PV industry performance. Its 2/3 wheeler segment revenue (~Rs 23 cr) de-grew by ~4% YoY which also outperformed the two wheeler segment while its tractor segment de-grew by ~20% YoY due to lower production by its Tractor OEM's. Exports continued to fare superbly with Rs 55 cr of revenue (~17% of total revenue) coming this quarter as compared to ~25 cr in Q3FY19. Management expects to clock Rs 70 cr of revenue in Q4FY20 and ~Rs 280 cr in FY21E which translates to 20% rise in exports over FY20.

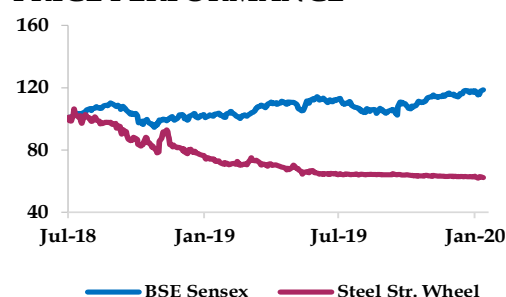
FINANCIAL SUMMARY

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
FY19	2041	82	52.8	9.4	-	12.9	15.7	-	4.0
FY20E	1608	28	18.1	(65.7)	41.9	4.1	9.8	7.9	3.0
FY21E	1960	79	50.5	178.8	15.0	10.9	14.8	5.6	3.0
FY22E	2241	102	65.4	29.5	11.6	12.6	16.5	4.6	3.5

Source: Company and Axis Securities, CMP as on 21st Jan 2020

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PRICE PERFORMANCE



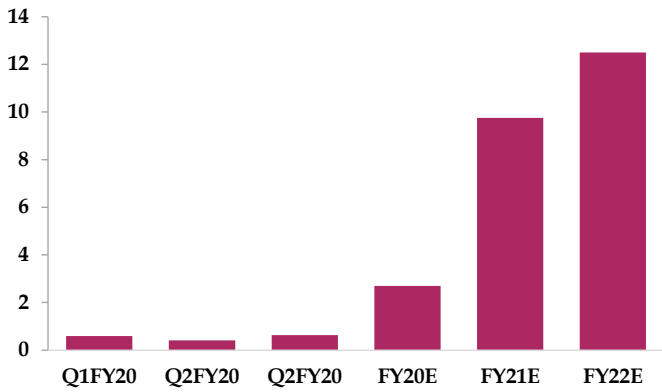
Key Highlights (Cont'd)

- **EBITDA margins steady despite volume decline:** EBITDA margins came in at 12.4% (up 100 bps QoQ and down 40 bps YoY) despite a steep decline in domestic volumes due to softer commodity prices, lower employee expense. This gives us confidence that management has a good control over its overheads and is working towards optimizing their costs. We expect margins to increase further to ~14% in FY21 when full effect of alloy wheel sales and exports come and domestic demand improves from current levels.

Other Con Call Highlights

- **Outlook:** Management said that their focus is to ramp up alloy wheel sales and look for other export opportunities. They were non-committal on any outlook for the next 3 quarters as BS6 changes will keep production numbers erratic. They are hoping that the CV players will ramp up production in the next two months. December saw nearly 1L CV wheel orders up from 70-80K and they see similar trends in January. They were not very concerned about other segments and expect demand to pick up post BS6 transition.
- **Alloy Wheels:** SSWL has grabbed orders for Hyundai's Creta model (both old and new) and Kia motors and have started shipping from mid-December. They expect nearly 1.5 L wheel sales in the coming quarter anchored by these two customers. Further, by July 2020 they expect to be the primary supplier to Hyundai for all models but will have more clarity post BS6 transition. They expect to reach a run rate of 1.6 L wheels in FY22 and plan to build capacity (through brownfield expansion in Mehsana plant) once utilization reaches above 80% by Q3FY21.

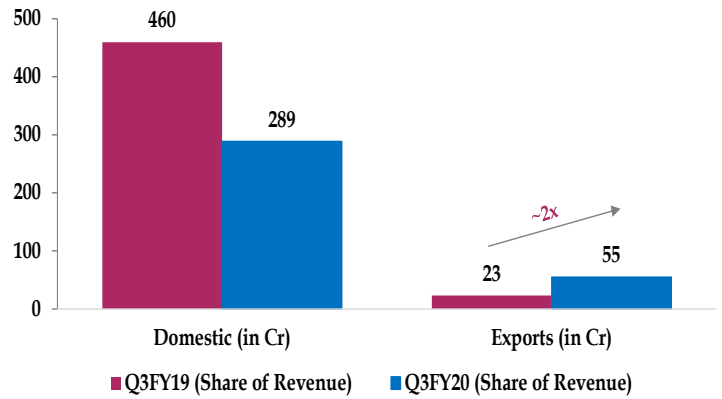
Alloy Wheel is expected to triple in volume in FY21E from FY20



Volumes (in thousands)

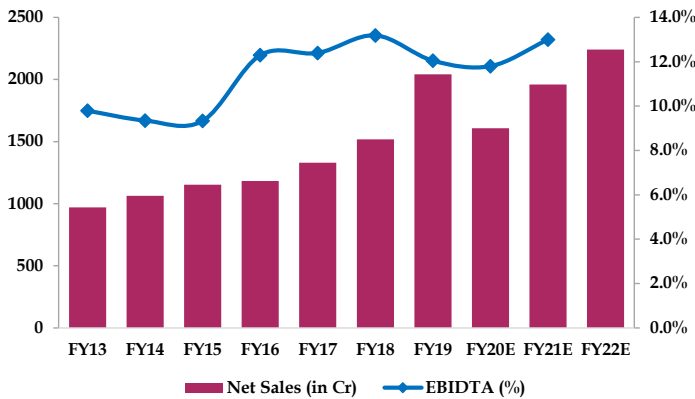
Source: Company, Axis Securities

Third quarter in a row where exports have grown by over 40%. Exports should further grow by 25% in FY21E



■ Q3FY19 (Share of Revenue) ■ Q3FY20 (Share of Revenue)

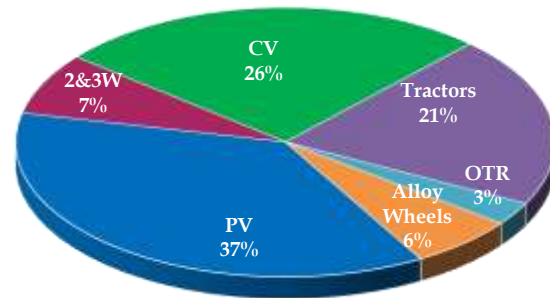
Despite revenue slump, margins remain healthy and is poised to improve in FY21E-22E



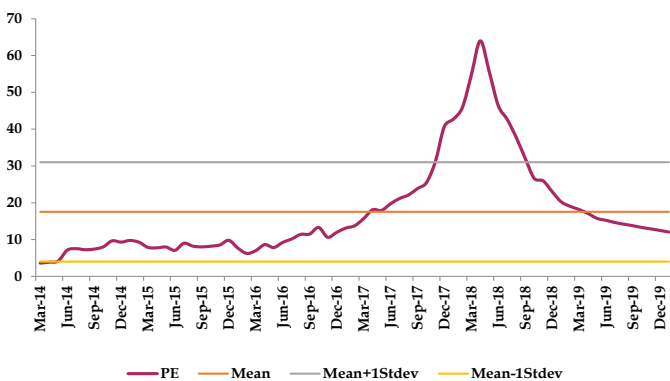
■ Net Sales (in Cr) — EBITDA (%)

Source: Company, Axis Securities

Decreasing CV share (40% in FY19) has impacted revenue and overall realizations

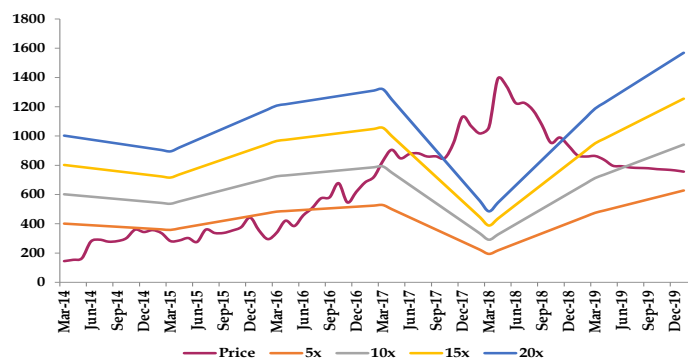


Steel Str. Wheel Fwd PE Band



— PE — Mean — Mean+1Stddev — Mean-1Stddev

Steel Str. Wheel 12M Fwd PE chart



— Price — 5x — 10x — 15x — 20x

Source: Company, Axis Securities

Result Update

(Rs.Cr.)	Quarterly Performance					Financial Year Ending			
	Q3FY20	Q3FY19	% Change (YoY)	Q2FY20	% Change (QoQ)	FY19	FY20E	FY21E	FY22E
Sales	344	483	(29)	362	(5)	2041	1608	1960	2241
Other Op. Inc	0.0	0.0		0.0		0	0	0	0
Total Revenue	344	483	(29)	362	(5)	2,041	1,608	1,960	2,241
Expenditure									
Net Raw Material	207	317	(35)	220	(6)	1304	984	1195	1376
Employee expenses	36	51	(30)	43	(16)	188	169	196	224
Other Exp	58	53	9	58	(0)	303	265	314	359
Total Expenditure	301	421	(29)	321	(6)	1795	1418	1705	1959
EBIDTA	43	62	(31)	41	3	246	190	255	282
EBITDA Margins	12.4%	12.8%		11.4%		12.0%	11.8%	13.0%	12.6%
Oth. Inc.	3.8	3.5		6.9		17.5	12.1	13.6	15.3
Interest	21.0	22.7	(7)	22.8	(8)	93	90	85	81
Depreciation	18.0	15.5	16	18.0	(0)	62	74	78	81
PBT	7	27	(72)	8	(1)	109	38	105	136
Tax	1.1	7.3		-0.2		27	9	26	34
PAT	6.3	19.6	(68)	7.7	(18)	82	28	79	102
EPS (Rs.)	4.0	12.6		4.9		52.8	18.1	50.5	69.6

Source: Company, Axis Securities Ltd

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HOLD	Between 10% and -10%
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