Steel Strips Wheels Ltd. (SSWL) – Investment BUY Call

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 1 July 2026

CMP -> 246

Buying Range -> 246 to 251
Upside Potential-> 12%
Investment Horizon -> 6 Months
Target price -> 276

1. Investment Thesis – BUY Recommendation (Medium-Term Horizon: 6 Months)

Steel Strips Wheels Limited (SSWL) presents a compelling **BUY** opportunity for investors with a medium-term investment horizon of approximately six months, supported by multiple earnings catalysts that are expected to unfold over the next two to four quarters. The company has successfully transformed itself from a conventional steel wheel manufacturer into a diversified automotive wheel and aluminium component company with an increasing contribution from higher-margin alloy wheels and aluminium knuckles. FY26 marked another year of record revenue and operating profit despite facing temporary disruptions from export weakness, labour shortages and higher depreciation arising from recent capacity expansion. Management believes FY27 will be an operating leverage-led growth year as capacity utilisation improves from nearly 76–78% to around 95–100%, exports recover, premium product mix strengthens and newly commissioned capacities gradually begin commercial production. The management has indicated a directional revenue aspiration of approximately INR 6,500 crore with EBITDA potentially reaching around INR 650 crore over the coming year if utilisation and export recovery progress as planned. With strong domestic automotive demand, increasing premiumisation across passenger vehicles, rising EV penetration and expanding export opportunities, SSWL appears well positioned to deliver healthy earnings growth over the coming quarters while simultaneously improving profitability through operating leverage and an enhanced product mix.

2. Business Overview, Product Portfolio and Industry Positioning

Steel Strips Wheels Limited is among India's largest integrated manufacturers of automotive wheels, serving virtually every major vehicle category including passenger vehicles, commercial vehicles, tractors, multi-utility vehicles, off-road vehicles, two-wheelers and three-wheelers. The company operates six manufacturing locations with installed annual capacity exceeding 25 million wheels comprising nearly 20 million steel wheels, 5 million alloy wheels and approximately 0.5 million aluminium knuckles, while additional capacities are currently under expansion. Steel wheels continue to contribute nearly 63% of FY26 revenue, primarily serving commercial vehicles, tractors and mass-market passenger vehicles where durability, ruggedness and cost competitiveness remain critical. Alloy wheels contributed approximately 36% of FY26 revenue and continue to benefit from increasing consumer preference for premium passenger vehicles owing to their lighter weight, superior heat dissipation, corrosion resistance, better fuel efficiency, improved handling and enhanced aesthetics. The aluminium knuckle business, though currently representing only about 1% of revenue, has emerged as an important strategic diversification initiative with applications in modern lightweight vehicle suspension systems that improve ride quality, handling characteristics and fuel efficiency. This gradual migration from steel products towards aluminium-intensive components is structurally improving the company's long-term margin profile while aligning its product portfolio with global automotive lightweighting trends.

3. Q4FY26 & FY26 Financial Performance – Record Operating Performance Despite Temporary Profitability Pressures

The company delivered its strongest operating performance in history during FY26, reporting record revenue of INR 5,183 crore, representing annual growth of approximately 17%, while Q4FY26 revenue increased nearly 20% YoY to INR 1,475 crore. EBITDA including other income reached a record INR 523 crore during FY26, while Q4 EBITDA touched an all-time high of approximately INR 153 crore, primarily driven by higher production volumes, better operating leverage and an increasing contribution from premium alloy wheels, tractor wheels and commercial vehicle wheels. Although EBITDA reached record levels, reported profit after tax declined modestly to INR 202 crore owing to significantly higher depreciation charges resulting from recent capacity additions rather than any deterioration in the underlying business fundamentals. Management highlighted that EBITDA per wheel remains the most appropriate profitability metric because fluctuations in steel and aluminium prices distort conventional EBITDA margin percentages due to immediate raw material pass-through arrangements with customers. EBITDA per wheel stood at INR 262 during FY26 and improved to INR 282 during Q4FY26 despite export weakness. Management expects this figure to approach approximately INR 300 over the coming year as exports recover, capacity utilisation rises sharply and premium aluminium products continue gaining share within the sales mix. This reflects a clear expectation of earnings expansion through operating leverage rather than aggressive pricing actions.

4. Balance Sheet Strength, Cash Flow Performance and Capital Allocation

Steel Strips Wheels continues to maintain a reasonably healthy balance sheet despite executing an aggressive capacity expansion programme over the last few years. During FY26, shareholders' equity increased to approximately INR 1,735 crore from INR 1,544 crore in FY25, reflecting continuous internal accrual generation and profit retention. Operating cash flow remained positive at approximately INR 331 crore despite a temporary increase in working capital requirements arising from higher inventory, commodity prices and receivables. The company invested around INR 196 crore in FY26 towards aluminium wheel and aluminium knuckle capacity expansion while maintaining total long-term and short-term debt broadly stable at around INR 826 crore. Cash accruals remained healthy at approximately INR 382 crore during FY26, demonstrating the business's ability to internally fund a significant portion of its expansion programme. Management has indicated that an additional debt increase of around INR 200 crore may be required to fund the ongoing Bhuj expansion and other brownfield projects, which appears manageable considering the expected earnings improvement from higher utilisation. Although working capital increased because of higher raw material prices and inventory build-up, management clarified that commodity cost increases are now passed through to OEM customers almost immediately, significantly reducing earnings volatility compared with the earlier three-month pass-through mechanism. Overall, the company's balance sheet remains capable of supporting its ongoing expansion while preserving financial flexibility for future growth opportunities.

5. Capacity Expansion, Capex Pipeline and Operating Leverage Opportunity

One of the most significant investment catalysts for SSWL over the next several quarters is the substantial operating leverage expected from recently completed and ongoing capital expenditure. Over the past few years, the company has consistently invested in expanding alloy wheel capacity, backward integration, automation and aluminium product diversification. Following the acquisition of the AMW Auto Components facility at Bhuj in FY24, management is investing approximately INR 500 crore to establish an additional 1.2 million alloy wheel capacity and nearly 1.1–1.2 million aluminium knuckle capacity in phased manner, while simultaneously undertaking around INR 50 crore of brownfield expansion for additional paint shops, rim lines and tractor wheel capacity. Trial production at Bhuj is expected to commence from October onwards, with OEM validation and commercial supplies expected after successful approvals. At full utilisation, the Bhuj project alone has the potential to generate approximately INR 700–800 crore of incremental annual revenue. More importantly, management expects existing steel wheel facilities to improve utilisation from around 76–78% during FY26 to nearly 95–100% over the coming year. Since wheel manufacturing is a high fixed-cost business, improved capacity utilisation is expected to substantially reduce unit manufacturing costs and drive EBITDA per wheel towards the management's target of around INR 300. Consequently, margin expansion during the next two to four quarters is likely to be driven more by operating leverage and manufacturing efficiency than by pricing increases alone.

6. Management Guidance, Business Transformation and Near-Term Growth Drivers

Management has outlined a clear roadmap for accelerated growth over the coming quarters, supported by higher utilisation, improving exports, premium product mix and stronger domestic automotive demand. The alloy wheel business continues to remain the company's principal growth engine, delivering nearly 30% value growth during FY26 and increasing its revenue contribution to approximately 36% of total sales. Rising premiumisation across passenger vehicles, greater alloy wheel fitment, increasing SUV penetration and strong OEM relationships are expected to sustain this momentum. Simultaneously, aluminium knuckles represent a strategically important adjacent business where the company currently enjoys first-mover advantages in the domestic market and is actively pursuing export opportunities through existing OEM relationships. The tractor wheel segment continues to provide stable year-round demand and favourable absorption benefits, while commercial vehicle wheels are witnessing recovery following the sharp slowdown experienced during the previous year. Management also highlighted that the steel wheel business, historically constrained by poor pricing, is undergoing a structural improvement after successfully renegotiating pricing with major OEM customers, which should materially improve profitability on future business wins. Additionally, the company claims leadership in EV scooter and three-wheeler wheels, with approximately 80% market share in electric scooters, supported by proprietary manufacturing technology. Strong growth in electric mobility, increasing premium passenger vehicle production, recovery in commercial vehicles, healthy rural demand supporting tractors and expanding aluminium product penetration collectively position the company for diversified growth across multiple automotive segments over the next two to four quarters. The exceptional June 2026 business update, which reported nearly 37% growth in turnover along with strong growth across truck, tractor, alloy and EV-linked businesses, further indicates that management's guidance is beginning to translate into operational performance.

7. Export Opportunity, India-US Trade Deal, India-Europe FTA and India-UK FTA – A Major Earnings Catalyst

Exports are likely to be one of the most important earnings catalysts for Steel Strips Wheels over the next six months. During FY26, export revenue declined approximately 19% to around INR 454 crore primarily because of tariff-related uncertainties in the United States, geopolitical disruptions and weaker international demand, which adversely impacted profitability as exports traditionally generate superior margins compared with domestic sales. Management estimated that lower exports alone reduced FY26 EBITDA by nearly INR 15 crore and also depressed EBITDA per wheel. However, the outlook has turned materially more favourable. Management expects export revenue to recover conservatively to approximately INR 600 crore during FY27, supported by a more level global tariff environment, increasing OEM-nominated export programmes and geographical diversification across Europe, Latin America and Asia. The company has consciously reduced dependence on the US market over the last two years by securing long-term nominated programmes with global OEMs, providing greater monthly volume stability and earnings visibility. In addition, management believes potential anti-dumping actions against certain Southeast Asian manufacturers could improve India's competitive positioning in global wheel exports. A successful India-US trade agreement could further enhance SSWL's competitiveness by lowering tariff barriers and improving market access for Indian automotive components, especially steel and alloy wheels. Similarly, the recently concluded India-UK Free Trade Agreement and the anticipated India-European Union Free Trade Agreement could provide additional opportunities for passenger vehicle alloy wheels and premium aluminium products supplied to European OEMs. Since the company already exports to major automotive markets including the United States, United Kingdom, Germany, France, Italy, Spain, Poland, Romania, Japan, South Korea, Brazil, Canada and several other countries, any improvement in bilateral trade frameworks could directly strengthen export volumes, pricing competitiveness and long-term customer acquisition. The June 2026 business update, which recorded the first positive export value growth after a prolonged weak period despite lower volumes, also indicates improving product mix and pricing quality, suggesting that the export recovery may already be underway.

8. Sectoral Tailwinds, Industry Drivers and Long-Term Business Transformation

Steel Strips Wheels is undergoing a structural transformation from a predominantly steel wheel manufacturer into a diversified lightweight automotive component company, positioning itself to benefit from several long-term industry trends. The company's future growth is closely linked to passenger vehicle production, SUV penetration, premiumisation, commercial vehicle replacement demand, farm mechanisation, electric vehicle adoption and increasing localisation by global automobile manufacturers. Alloy wheels continue to enjoy significantly higher industry growth than conventional steel wheels due to increasing consumer preference for premium vehicles and improved aesthetics. Simultaneously, aluminium knuckles represent a new high-value engineering segment aligned with the global automotive industry's focus on lightweighting, fuel efficiency and lower emissions. Management also continues to invest in robotic automation, manufacturing optimisation and process improvements, which should improve operating efficiency over time. Government initiatives supporting automobile manufacturing, electric mobility, localisation under the Make in India programme, production-linked investment across the automotive ecosystem and increasing infrastructure expenditure continue to support medium-term demand for passenger vehicles, commercial vehicles and tractors. Private sector investments by domestic and global automobile OEMs into new vehicle platforms, electric vehicles and export-oriented manufacturing further strengthen demand visibility for wheel suppliers with established customer relationships. As aluminium products gradually contribute a larger proportion of revenue while the steel wheel business benefits from improved pricing discipline and higher utilisation, the company's overall business mix is expected to become structurally more profitable and less cyclical over the medium term. Management's expectation of EBITDA per wheel approaching INR 300 and EBITDA potentially reaching INR 650 crore reflects confidence that these structural improvements are beginning to translate into measurable financial performance.

9. Key Risks, Near-Term Headwinds and Overall BUY Conclusion

Despite the favourable long-term outlook, investors should monitor several execution and macroeconomic risks over the next few quarters. The most important near-term risk remains timely commissioning and OEM approval of the new Bhuj alloy wheel and aluminium knuckle capacities, as any delay could postpone revenue generation from these investments. Export recovery also remains dependent on global automotive demand, international trade policies and geopolitical stability. Although management has indicated that labour shortages have now been fully resolved, sustained manpower availability remains critical because the company previously estimated that labour constraints resulted in approximately INR 80 crore of lost sales. Rising steel and aluminium prices may temporarily increase working capital requirements despite immediate pass-through mechanisms. Commercial vehicle demand remains cyclical and could weaken if freight activity slows, while any delay in tractor demand recovery due to adverse monsoon conditions could affect rural volumes. Elevated depreciation and incremental finance costs arising from ongoing capital expenditure may temporarily moderate reported profit growth until utilisation improves. Nevertheless, these risks appear manageable relative to the company's visible growth pipeline. Record revenues, improving domestic demand, recovery in exports, premium product mix expansion, increasing alloy wheel penetration, aluminium knuckle commercialisation, better steel wheel pricing, industry-leading EV wheel position, strong operating leverage potential, expanding global customer base and favourable international trade opportunities collectively support a constructive outlook. For investors with a medium-term investment horizon of approximately six months, Steel Strips Wheels appears well positioned to deliver improved earnings momentum, higher margins and stronger return ratios as multiple operational catalysts unfold over the next two to four quarters. Accordingly, the stock merits a BUY recommendation for investors seeking exposure to India's automotive component sector with an increasing export orientation, premiumisation benefits and significant operating leverage potential.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team