Wheels India Limited

April 05, 2021

Wheels India Limited: Long-term rating downgraded; medium-term and short-term ratings reaffirmed; outlook on the long-term and medium-term rating moved to stable from negative; rated amount enhanced

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	100.00	[ICRA]A1 reaffirmed
Medium Term: Fixed deposit	180.00	210.00	MA+ (Stable); rating reaffirmed and outlook revised to stable from negative for existing limits/assigned for fresh limits
Term loan	227.81	204.87	Downgraded to [ICRA]A from [ICRA]A+ and outlook revised to stable from negative
Long term - Fund based facilities	260.00	260.00	
Long term – Unallocated	2.19	25.13	
Short term -Non-fund-based facilities	150.00	150.00	[ICRA]A1 reaffirmed
Total	**920.00**	**950.00**	

*Instrument details are provided in Annexure-1

Rationale

The long-term rating downgrade considers the substantial increase in Wheels India Limited's (WIL) debt levels and consequent deterioration in the company's capital structure and coverage metrics compared to ICRA's earlier expectation. The medium-term rating has not been downgraded but has been reaffirmed with change in outlook to 'Stable' from 'Negative' as the revision in the long-term rating has been limited to one notch.

WIL's operating income and operating margins for 9M FY2021 stood at Rs. 1,486.0 crore (28.7% decline on YoY basis) and 4.5% respectively (down by 200 bps YoY), broadly in line with ICRA's expectations. Further, the company reported a 10.3% YoY growth in consolidated operating income in Q3 FY2021 and its operating margins were over 7% in both Q2 and Q3 FY2021, and the 9M FY2021 topline/margin impact largely stemming from the lockdown in Q1 FY2021. However, the company's debt levels increased to Rs. 1,046.8 crore[1] as on Dec 31, 2020, about 30-35% higher than ICRA's estimates following 1. higher capex undertaken and 2. incremental working capital requirements arising from the wind segment and weaker performance of WIL Car Wheels Limited among other factors. This has deteriorated WIL's capital structure and coverage metrics, resulting in consolidated net debt/OPBDITA of 11.5x and NCA/Total debt of 2.7% for 9M FY2021.

Going forward, the anticipated increase in exports, recent foray into new products like cast alloy wheels (CAW), deeper penetration in the wind segment and healthy outlook for the end-user industries are expected to support healthy scale-up in WIL's revenues over the medium term. Its margins and accruals are also expected to increase, aided by favourable product mix, continuation of some of the cost-saving initiatives implemented in FY2021 and benefits from higher operating leverage, although it will remain constrained by WIL's limited bargaining power, competitive pressures and relatively moderate value addition. Nevertheless, the consolidated debt levels and debt indicators are expected to remain high for the scale of operations with increase in capex estimates and relatively high working capital requirements.

[1] Includes purchase bills discounted and sales bills discounted with recourse

The ratings remain supported by WIL's exceptional flexibility by belonging to the larger TVS Group of Companies – an established name in the domestic auto ancillary industry and the T S Santhanam arm within that. The TVS Group held 55.10% stake in WIL through TV Sundram Iyengar and Sons Private Limited (20.41%), Sundaram Finance Holdings Limited (23.28%), Southern Roadways Limited (9.28%) and India Motor Parts & Accessories Limited (2.14%) as on Dec 31, 2020[2]. The ratings also consider the company's established position as one of the largest steel wheel rim manufacturers in the country in the automotive segment (except 2W) and globally in EM equipment, with presence of more than five decades. WIL has a diversified customer base and caters to over 30 OEMs globally. Further, products other than wheel rims, like windmill components, bogie frames and bogie bolsters, air suspension systems and a few others contributed over 20% of its revenues in 9M FY2021 providing revenue diversification to an extent.

Key rating drivers and their description

Credit strengths

WIL is among the largest steel wheel rim manufacturers in India in the automotive segment and among the largest steel wheel rim manufacturers globally for EM equipment – With revenues of Rs. 1,486.0 crore in 9M FY2021 and over five decades of presence in the steel wheel rim industry, the company is amongst the largest manufacturers of automotive steel wheel rims in India and earth mover steel wheel rims globally. WIL enjoys a dominant domestic market share of 42% in M&HCV, 81% in LCV, 54% in tractors and 30% in passenger cars steel rims at a consolidated level.

Diversified segment and customer base; non-wheel rim business constituted over 20% of revenues in 9M FY2021 – The company derives 76% of its consolidated revenues from India while the remaining are from overseas markets. Product wise, wheels constitute 76% of revenues, while fabricated and machined windmill components, bogie frames and bogie bolsters, air suspension systems and others constitute 24% of revenues. Segment-wise also, WIL's revenues are fairly diversified across tractors (23% of 9M FY2021 revenues), passenger cars (16% of 9M FY2021 revenues), commercial vehicles (12% of 9M FY2021 revenues), earthmovers (12% of revenues in 9M FY2021) and wind power (11% of 9M FY2021 revenues). Within domestic wheel rims, WIL has a diversified customer base spread across 30 OEMs. Mahindra and Mahindra Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+), Tata Motors Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+), and Maruti Suzuki India Limited were the top three customers accounting for 12%, 8% and 8% of consolidated domestic wheel revenues in 9M FY2021 respectively. The diversification mitigates risks arising from revenue decline from any single customer/segment to an extent, although the company remains dependent on the domestic automotive market.

Healthy scale up in revenues expected over the medium term – WIL has commenced production of cast alloy wheels (CAW) in its greenfield plant in Gummidipoondi since Nov 2020. Further, the company expects to increase its exports and increase its share of business in the wind segment. These, along with healthy growth (20%+ in FY2022) in WIL's end user industries (CV, PV and construction equipment) are expected to support healthy revenue improvement for WIL going forward. However, the earnings will remain vulnerable to the inherent cyclicality/any slowdown in the auto industry, akin to other component suppliers.

Financial flexibility by being part of the larger TVS Group of companies and the T S Santhanam arm within that – WIL enjoys exceptional financial flexibility by belonging to the larger TVS Group of Companies – an established name in the domestic auto ancillary industry and the T S Santhanam arm within that. The TVS Group held a 55.10% stake in the company through TV Sundram Iyengar and Sons Private Limited (20.41%, rated [ICRA]AA&/ [ICRA]A1+&)), Sundaram Finance Holdings Limited (23.28%), Southern Roadways Limited (9.28%) and India Motor Parts & Accessories Limited (2.14%, rated [ICRA]AA (Stable)/[ICRA]A1+).

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[2] Post the ongoing TVS Group restructuring exercise, the shares held by TVS Sons and Southern Roadways Private Limited in WIL will be transferred to Trichur Sundaram Santhanam & Family Private Limited. There is no impact on WIL's operations because of the ongoing Group restructuring exercise.

Credit challenges

Relatively high debt levels and consequent impact on debt indicators – The company incurred capex of Rs. 160-170 crore for FY2021 for its capacity enhancement and maintenance activities as against earlier estimates of ~Rs. 60 crore and about 40% of this capex was debt-funded. As a result of increase in capex commitments, higher working capital requirements for the wind segment and weak cash accruals in the subsidiary, WCWL, the company's debt levels were relatively high at Rs. 1,046.8 crore as on Dec 31, 2020[3], an increase of about 30-35% from ICRA's earlier expectation. Further, WIL also has total capex of Rs. 185.0 crore over FY2022 and FY2023. While the proposed capex is predominantly for capacity enhancement projects to meet the increasing demand, part of this is expected to be debt-funded, preventing any meaningful reduction in long-term debt over the medium term. ICRA expects WIL's borrowings to remain high over the medium term for its scale of operations given its relatively high capex and working capital requirements. This will weaken the coverage metrics from ICRA's earlier estimates, despite higher accruals.

Moderate operating margins – WIL has moderate operating margins given its limited bargaining power sandwiched between OEMs and large suppliers, competitive pressures and relatively moderate value addition. While the favourable product mix, improved operating leverage and continuation of some of the cost-saving initiatives implemented in FY2021 are likely to aid in margin improvement going forward, it will remain moderate.

Liquidity Position: Adequate

WIL's liquidity is adequate with undrawn lines of more than Rs. 140 crore as on Dec 31, 2020. Further, WIL enjoys exceptional financial flexibility and lender/investor comfort, and this is expected to continue going forward as well. The company had consolidated cash and bank balances and liquid investments of Rs. 7.4 crore as on December 31, 2020 and its average working capital utilisation was 87.7% of drawing power for the period March 2020 – December 2020. In relation to these sources of cash, WIL has a total consolidated capex commitment of Rs. 185 crore for FY2022 and FY2023 (to be funded through mix of debt and internal accruals), and term loan repayments of Rs. 72.7 crore and Rs. 78.5 crore respectively in FY2022 and FY2023 on existing loans. Overall, ICRA expects WIL to be able to meet its medium-term commitments through internal sources of cash and incremental debt.

Rating sensitivities

Positive factors – Sustained improvement in profit margins and accruals along with significant reduction in debt levels could lead to an upgrade. Specific metrics that could lead to an upgrade include Debt/OPBDITA less than 3.0 times.

Negative factors – Negative pressure on WIL's rating could arise from lower-than-expected scale up in revenues/profits and increase in debt levels, leading to deterioration in liquidity or leverage metrices.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidated/Standalone	The ratings are based on the consolidated financial profile of the company. Details of subsidiary/associate provided in Annexure-2

[3] Includes purchase bills discounted and sales bills discounted with recourse

About the company:

Wheels India Limited (WIL) is among the largest manufacturers of steel wheel rims in the country and is present across automotive (except 2W), tractor and earth mover segments. Further, WIL also manufactures air suspension systems for luxury buses in India, supplies fabricated and machined parts for windmills, and produces bogie frame and bogie bolsters for Indian Railways. The company derives 76% of its consolidated revenues from the domestic market and its manufacturing facilities[4] are located at Padi (TN), Rampur (UP), Pune (Maharashtra), Sriperumbudur (TN), Pantnagar (Uttarakhand), Deoli (Maharashtra), Thirumudivakkam (TN), Vanod (Gujarat), Bawal (Haryana) and Thervoy Kandigai (TN). The company is part of the larger TVS Group (T S Santhanam arm), with 55.10% stake held by the TVS Group TV Sundram Iyengar and Sons Private Limited (20.41%, rated [ICRA]AA&/ [ICRA]A1+&)), Sundaram Finance Holdings Limited (23.28%), Southern Roadways Limited (9.28%) and India Motor Parts & Accessories Limited (2.14%, rated [ICRA]AA (Stable)/[ICRA]A1+) as on Dec 31, 2020[5]. WIL has a subsidiary by name WIL Car Wheels Limited (WCWL), which manufactures passenger car steel wheel rims; 74% stake is held by WIL in this entity and the remaining is held by Topy Industries Limited, Japan.

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	3,441.3	2,671.6
PAT (Rs. crore)	74.3	47.3
OPBDIT/ OI (%)	7.1%	6.4%
PAT/ OI (%)	2.2%	1.8%
Total Outside Liabilities/ TNW (times)	2.1	2.0
Total Debt/ OPBDIT (times)	3.4	5.5
Interest coverage (times)	3.7	2.6

Source: Company's Annual Report, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] Includes that of subsidiaries

[5] Post the ongoing TVS Group restructuring exercise, the shares held by TVS Sons and Southern Roadways Private Limited in WIL will be transferred to Trichur Sundaram Santhanam & Family Private Limited. There is no impact on WIL's operations because of the ongoing Group restructuring exercise.

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)	Current Rating (FY2022) Date & Rating Apr-05-21	Chronology of Rating History for the past 3 years: Date & Rating in FY21 08-Jul-20	12-Jun-20	30-Apr-20	Date & Rating in FY20 15-Oct-19	Date & Rating in FY19 22-Mar-19	04-Apr-18	Date & Rating in FY18 08-Jan-18	12-Jun-17
1	Fixed deposit	Medium term	210.00	193.46 (as on Dec 31, 2020)	MA+ (Stable)	MA+ (Negative)	MA+ (Negative)	MA+ (Negative)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)
2	Term loan	Long term	204.87	204.87 (as on Feb 28, 2021)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund based CC	Long term	260.00	-	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Unallocated	Long term	25.13	-	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	-	-	-	-	[ICRA]A+ (Stable)
5	Non-fund based facilities	Short term	150.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Unallocated	LT/ST	-	-	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
7	Commercial Paper	Short term	100.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit	-	6.75-7.25%	-	210.00	MA+ (Stable)
Not placed	Commercial Paper	-	-	-	100.00	[ICRA]A1
NA	Term Loans	FY2014	7.5-8.0%	FY2026	204.87	[ICRA]A (Stable)
NA	Fund based facilities-Cash Credit	Not applicable			260.00	[ICRA]A (Stable)
NA	Long-term- unallocated	Not applicable			25.13	[ICRA]A (Stable)
NA	Letter of Credit & Bank Guarantee	Not applicable			150.00	[ICRA]A1

Source: Wheels India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
WIL Car Wheels Limited	74.00%	Full Consolidation
Axles India Limited	9.51%	Equity Method

Source: Wheels India Limited

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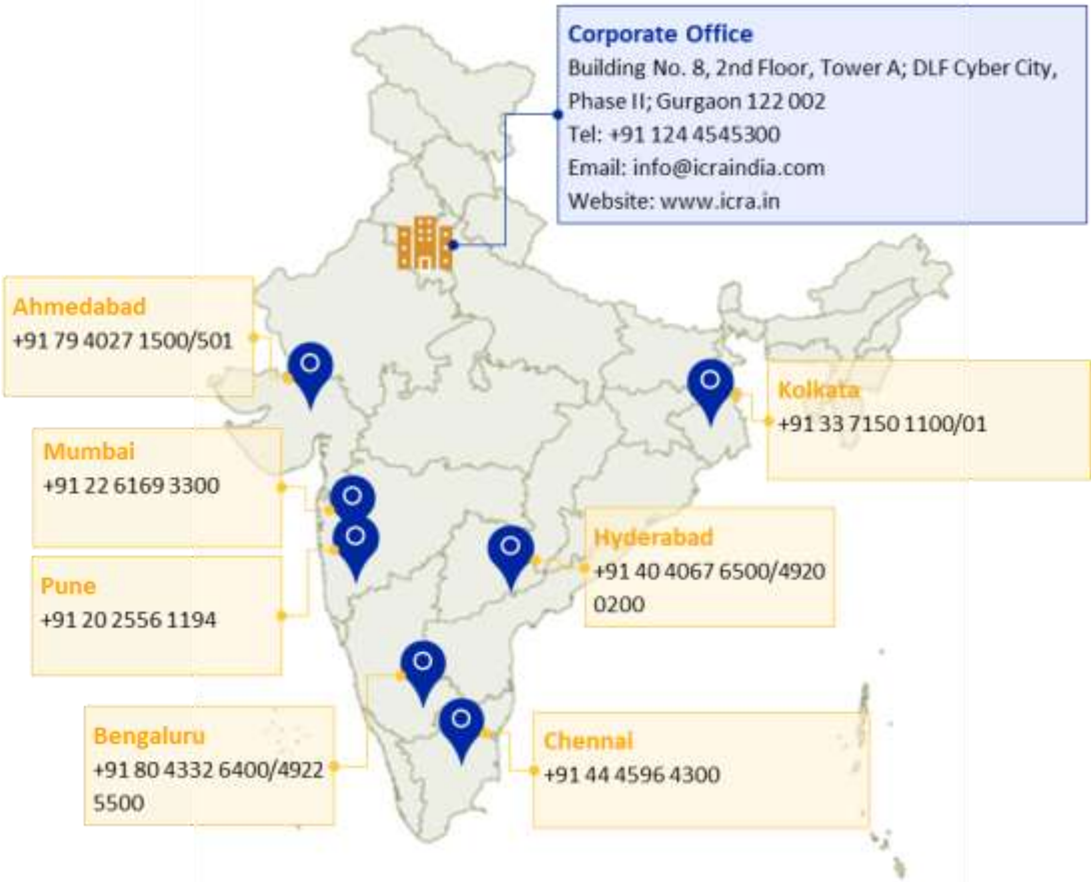

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