

Wheels India Limited

April 02, 2018

Wheels India Limited: Rating assigned to the enhanced commercial paper

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	50.00	100.00	[ICRA]A1+ ; assigned
Medium Term: Fixed deposit	150.0	150.0	MA+(Stable); outstanding
Long term: Term loan	85.00	85.00	[ICRA]A+ (Stable);outstanding
Long term - Fund based facilities	225.00	225.00	[ICRA]A+ (Stable); outstanding
Short term -Non-fund based facilities	150.00	150.00	[ICRA]A1+; outstanding
LT/ST: Unallocated	65.00	65.00	[ICRA]A+(Stable)/[ICRA]A1+; outstanding
Total	725.00	775.00	

Rating action

ICRA has assigned the rating of [ICRA]A1+ (pronounced as ICRA A one plus) to the Rs. 100.00 crore¹ (revised from Rs. 50.00 crore) commercial paper programme of Wheels India Limited (WIL/the company)².

ICRA also has other outstanding ratings of [ICRA]A+ (pronounced as ICRA A plus) on the Rs.85.00 crore term loan facilities and Rs. 225.00 crore fund based long term facilities of WIL. ICRA has also conferred the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the company's Rs. 150.0 crore non fund based facilities. For the unallocated facilities totaling Rs.65.00 crore a rating of [ICRA]A+ (Stable) or [ICRA]A1+ will apply contingent on the tenor of the availed facilities. Further, ICRA also has conferred the ratings of MA+ outstanding on WIL's existing Rs.150.00 crore fixed deposit programme. The long term ratings carry a 'Stable' outlook.

Rationale

The ratings favorably factors in WIL's leading market position in the domestic wheel rim industry with high share of business with several leading auto majors across various segments, its diversified customer profile, its established presence in the global earthmoving (EM) wheel rim industry and its well diversified product mix. The ratings also consider the financial flexibility enjoyed by WIL as part of the TVS Group.

The ratings take comfort from the revival in the domestic auto segment which translated into healthy revenue growth for the company during FY2017 and 9m FY2018 (9% growth compared to 9m FY2017). The operating and net margins also improved by 20bps and 70bps during FY2017 supported by better absorption of fixed costs and lower interest cost.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings also factor in the moderate, albeit improving, capitalisation indicators, given the regular debt-funded capital expenditure (capex) undertaken towards capacity expansion.

The ratings remain constrained by the susceptibility of revenues to the cyclical trends in automobile industry especially the passenger vehicle segment, where auto majors are moving towards alloy wheels as against steel rims manufactured by WIL. In this context, WIL has hived off its light passenger vehicle segment to its subsidiary WIL Car Wheels Limited w.e.f from September 01, 2017 and tied up with a strategic partner Topy Industries limited. This strategic partnership will combine the leadership position already established by WIL in the passenger car steel wheel rim segment in India with Topy Industries Limited's technology and global relationships. Also, the management has continued to take an effort to de-risk revenue concentration through entry into counter-cyclical segments like air suspension and power segment. These two segments contributed to 16% of revenues during FY2017.

The rating also considers the vulnerability of earnings to fluctuations in foreign exchange in the absence of complete hedging of its receivables. WIL's continued debt funded capital expenditure (capex) owing to lower accruals, results in a moderate capital structure. WIL's ability to sustain revenue growth, improve profitability while improving its capital structure remains the key rating monitorables.

Outlook: Stable

ICRA believes WIL will continue to benefit from being the largest steel wheel rim manufacturer with a dominant market share and diverse customer base. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability is achieved while improving its capital structure. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, results in weaker financial profile.

Key rating drivers

Credit strengths

Largest wheel rim manufacturer in the country and one of the largest Earth Mover (EM) rim manufacturers globally:

WIL is the largest manufacturer of wheel rims in India, catering to the Heavy Commercial Vehicle (HCVs), Light Commercial Vehicles (LCVs), passenger cars, tractor segment, agricultural applications, off-road construction vehicles and also has established presence in the global earthmoving (EM) wheel rim industry. Pick up in passenger car demand and higher off-take in the tractor segment on account of improved rural income and increase spend in infrastructure activity supported revenue growth by 9.3% and 9% during FY2017 and 9m FY2018 respectively.

Dominant market position in wheel rims with a diverse customer base and broad product portfolio catering to all segments in the automobile industry (except two wheelers)

The company has long-standing relationship with all automotive Original equipment manufacturers (OEM's) in the country having supplied rims to all major players over the past few decades. The sales mix is well spread across more than 30 OEM's, with top three OEM's –Tata Motors Limited (TML- [ICRA]AA(positive)/[ICRA]A1+), Ashok Leyland Limited (ALL-[ICRA]AA/Positive/[ICRA]A1+) and Mahindra & Mahindra (M&M-[ICRA]AAA/Stable/[ICRA]A1+) accounting for over 42% of total sales during H1FY2018. Besides, the auto businesses, 23% of revenues are contributed from air suspension systems, windmill and power structures which grew significantly during FY2017 and H1FY2018. Thus, the diversification across OEM's and different industry segments has stood the company in good stead, aiding in minimizing the extent of slowdown that was witnessed across the domestic automotive industry in the last few years.

Being part of TVS group, WIL enjoys considerable financial flexibility with financial institutions:

WIL is part of the TVS group of companies, with Sundaram Finance Ltd (rated [ICRA]AAA (Stable)/ MAAA (Stable)/ [ICRA]A1+), TVS Sundaram Iyengar & Sons ([ICRA]AA/Stable/A1+) and Southern Roadways Limited together holding 40.77% stake in the company.

Credit challenges**Capital intensive industry with continuous debt funded capex resulting in a leveraged capital structure**

The debt structure of the company consists of long term loans, public deposits, working capital loans, commercial paper and unsecured short term loans. Bills discounted also form a substantial portion of the borrowings. During September 2017, the company received Rs. 60 crores as consideration for the slump sale of the Bawal plant to WIL Car Wheels Limited. This was utilised for working capital needs resulting in lower debt (Rs. 260.7 crores) as at September 30, 2017. WIL has proposed an annual capex of ~Rs. 75.0 crore p.a., aimed at some increase in capacities and de-bottlenecking of operations; this is expected to lead to some increase in debt levels by March 2018. The company's capital structure continues to be moderately high with TD/OPBDITA of 2.0 times and TD/TNW of 0.8 times as on September 30, 2017.

Exposure to cyclicality in the auto industry, given the heavy dependence on the same

The auto business accounted for ~77% of revenues during FY2017 and H1FY2018 thus exposing the company to the cyclical trends in automobile industry. WIL's presence is also restricted to steel wheel rims in the passenger vehicle segment, where there has been rapid penetration of aluminum alloy wheel rims. At present, alloy wheels account for about 25%-27% of domestic automotive wheel requirement in the Indian PV industry and its share is increasing gradually. In this context, WIL has hived off its light passenger vehicle segment to its subsidiary WIL Car Wheels Limited and tied up with a strategic partner Topy Industries limited. This strategic partnership will combine the leadership position already established by WIL in the passenger car steel wheel segment in India with the technology skills and global relationships of Topy Industries Limited; this subsidiary will focus on the export markets. Also, the management has continued to take an effort to de-risk revenue concentration through entry into counter-cyclical segments like air suspension and power segment.

Stiff competitive pressures impacting margins

The intense nature of competition in the steel wheel rim industry along with penetration of alloy wheels exerts pressure on the market share of the company. WIL is characterized by moderate operating profit margins of 8.9% and 8.0% during FY2017 and 9m FY2018 owing to the commoditized nature of its products thus resulting in lower overall return metrics. Further WIL's revenues are susceptible to any adverse fluctuations in foreign currency movements given that export business accounts for 15% of the revenues in H1FY2018. The company hedges only a portion of its exposure (unhedged exposure as at March 31, 2017 is Rs. 29.1 crores) thus profitability remains exposed to foreign exchange fluctuations risk.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto component manufacturers](#)

About the company:

Wheels India Limited (WIL), part of the TVS group of companies, was incorporated in 1960 as a joint venture between Dunlop, UK (35.9% stake) and the TVS group (remaining stake). In 1999, Titan Europe Plc. (Titan Europe) of Titan International Inc (rated by Moody's B3/Stable in November 2017) bought out Dunlop's stake of 35.9% in WIL. Titan Europe PLC was fully acquired by Titan International Inc. Consequently, Titan International Inc inherited the 35.9% stake in the Company. In compliance with SEBI regulations, following an open offer, Titan International Inc increased its stake in WIL to 41.73%.

Titan International is a global major in the off-highway wheel manufacturing business. Its primary markets include agriculture, earthmoving/construction and consumer applications. In March 2014, in order to comply with the Minimum Public shareholding (MPS) requirement, WIL undertook a rights issue. Following the rights issue, the combined stake of the promoters (Titan and TVS group) has been pared down to 75%.

WIL is the largest manufacturer of wheel rims in the country and is present across all automotive segments namely passenger cars, CVs, utility vehicles (UV), tractors and Earth Movers (EM), except two-wheelers. Further, WIL is a leading manufacturer of air suspension systems for luxury buses in India and has ventured into manufacturing of power structures. The company is geographically well-diversified and has manufacturing facilities at Padi (TN), Rampur (UP), Pune (Maharashtra), Bawal (Haryana), Sriperumbudur (TN), Deoli, SIPCOT (TN), Nashik. WIL has decided to close the plant in Pantnagar (Uttarakhand) as part of ongoing strategic business decision. WIL also sold the light passenger wheels business in Bawal and Padi plants to its subsidiary WIL Car Wheels Limited w.e.f from 1st Sep 2017

In June 2017, WIL entered into a strategic partnership in the passenger car steel wheel rim business in India with Topy Industries Limited, whereby Topy acquired 26% stake in WIL Car Wheels Limited (WCWL), a wholly-owned subsidiary of WIL. The investment was made through new issue of equity shares by WCWL to Topy Industries Limited.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	1,987.2	2,172.9
PAT (Rs. crore)	40.0	59.3
OPBDIT/ OI (%)	8.7%	8.9%
RoCE (%)	12.5%	13.1%
Total Debt/ TNW (times)	1.1	1.0
Total Debt/ OPBDIT (times)	2.7	2.5
Interest coverage (times)	3.0	4.0
NWC/ OI (%)	19.9%	20.2%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2018)			Chronology of Rating History for the past 3 years @						
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr,18	Date & Rating in FY18		Date & Rating in FY17		Date & Rating in FY16	
					Jan, 18	Jun, 17	Dec,16	Aug,16	Dec,15	Oct,15	
1	Fixed deposit	Medium term	150.0	-	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)
2	Term loan	Long term	85.00	85.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund based-CC	Long term	225.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Unallocated	Long term	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[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
6	Unallocated	LT/ST	65.00	-	[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	[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

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	-	-	-	150.00	MA+(Stable)
NA	Commercial Paper	-	-	7-365 days	100.00	[ICRA]A1+
NA	Term Loan-1	FY2012	-	FY2019	8.75	[ICRA]A+(Stable)
NA	Term Loan-2	FY2013	-	FY2019	7.81	[ICRA]A+(Stable)
NA	Term Loan-3	FY2014	-	FY2021	20.25	[ICRA]A+(Stable)
NA	Term Loan-4	FY2015	-	FY2020	14.06	[ICRA]A+(Stable)
NA	Term Loan-5	FY2014	-	FY2020	11.25	[ICRA]A+(Stable)
NA	Term Loan-6	FY2016	-	FY2021	20.31	[ICRA]A+(Stable)
NA	Term Loan- Unallocated	-	-	-	2.57	[ICRA]A+(Stable)
NA	Fund based facilities- Cash Credit	-	-	-	225.00	[ICRA]A+(Stable)
NA	Letter of Credit & Bank Guarantee	-	-	-	150.00	[ICRA]A1+
NA	LT/ST: Unallocated	-	-	-	65.00	[ICRA]A+ (Stable)/[ICRA]A1+

Source: Wheels India Limited

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