April 30, 2020

Wheels India Limited: Ratings reaffirmed; outlook on the long-term and medium-term ratings revised to negative from stable

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	150.00	150.00	MA+ (Negative); rating reaffirmed, and outlook revised to negative from stable
Term loan	160.00	147.81	[ICRA]A+ (Negative); rating reaffirmed, and outlook revised to negative from stable
Long term - Fund based facilities	260.00	260.00	
Long term – Unallocated	-	42.19	
Short term -Non-fund-based facilities	150.00	150.00	[ICRA]A1+; reaffirmed
LT/ST: Unallocated	30.00	-	-
Total	**850.00**	**850.00**	

*Instrument details are provided in Annexure-1

Rationale

The negative outlook on the long-term and medium-term rating follows the impact of Covid-19 outbreak on the Indian auto component, and mining and construction equipment industries and is in line with ICRA's negative outlook for the sectors.

The automotive supply chain disruption – largely limited to China during January and February 2020, morphed into a demand shock owing to the deterioration in the economic environment. An unprecedented large-scale global lockdown of all non-essential services has led to production disruptions at original equipment manufacturers (OEMs) and down the supply chain in March 2020 and Q1 FY2021. Further, automotive demand, both for the commercial (commercial vehicles) and the consumer segments (passenger vehicles, two-wheelers) and demand for construction equipment, has contracted sharply because of weakening liquidity and poor consumer sentiments.

The capital-intensive automotive and MCE industries operates at moderate operating leverage, with some scope to prune costs. Nevertheless, a sharp contraction in demand, as witnessed currently, will impact operating leverage. Further, to conserve immediate-term liquidity a few OEMs are stretching their payment cycles to vendors, discontinuing long-established systems of short credit periods. This sudden stretch in receivables will disrupt the working capital cycle of ancillaries. In a vicious cycle, the pressure on Tier 1 working capital cycles will aggravate for weaker entities down the supply chain. For exporters, slowing global demand could also lead to inventory build-up and stretched receivables in the coming quarters.

While the strength of the eventual recovery will be contingent on the duration and breadth of the Covid-19 pandemic before an eventual containment, a relatively prolonged period of curtailed automotive and MCE demand, as the consumer stays wary of large capital commitments is likely. While ICRA expects local demand dynamics in India to play out differently across sectors, most automotive sectors (barring tractors and light commercial vehicles) and MCE are expected to post double digit declines during FY2021. However, considering the highly uncertain nature of the pandemic, these estimates will be reviewed further in coming months.

The ratings positively factor in WIL's healthy 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 holds 43.27% stake in WIL through TV Sundram Iyengar and Sons Private Limited (20.41%), Sundaram Finance Limited (13.58%) and Southern Roadways Limited (9.28%). 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 earth movers, with presence of more than five decades. WIL has a diversified customer base and caters to over 30 OEMs globally. Also, products other than wheel rims, like windmill components, bogie frames and bogie bolsters, air suspension systems and a few others contributed to ~30% of its revenues in 9M FY2020 providing revenue diversification to an extent.

However, the long-term and medium-term ratings are constrained by the company's relatively high borrowings because of its continued debt-funded capex over the years and weakening of coverage metrics in 9M FY2020 because of lower operating leverage with sharp demand deterioration. The company's consolidated net debt/OPBDITA stood at 4.7x as on Dec 31, 2019 (3.4x as on Mar 31, 2019) while its interest coverage was 2.7x for 9M FY2020 (PY: 3.8x). Also, WIL has moderate operating margins at 6.5% for 9M FY2020 (PY: 7.1% for 9M FY2019) given its limited bargaining power sandwiched between OEMs and large suppliers, competitive pressures and relatively moderate value addition.

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 earth movers – With revenues of ~Rs. 2,083.0 crore in 9M FY2020 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 43% in M&HCV, 80% 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 FY2020 – The company derives 80% of its consolidated revenues from India while the remaining are from overseas markets. Product wise, wheels constitute ~70% of revenues, while fabricated and machined windmill components, bogie frames and bogie bolsters, air suspension systems and others constitute ~30% of revenues. Segment-wise also, WIL's revenues are fairly diversified across passenger cars (18% of revenues in 9M FY2020), commercial vehicles (15% of revenues in 9M FY2020), tractors (15% of revenues in 9M FY2020) and earthmovers (11% of revenues in 9M FY2020). Within domestic wheel rims, WIL has a diversified customer base spread across 30 OEMs. Tata Motors Limited (rated [ICRA]AA-(Negative)/[ICRA]A1+), Mahindra and Mahindra Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) and Maruti Suzuki India Limited were the top three customers accounting for 18%, 14% and 11% of consolidated revenues in 9M FY2020 respectively. The diversification mitigates risks arising from revenue decline in from any single customer/segment to an extent, although the company remains dependent on the domestic automotive market.

Financial flexibility by being part of the larger TVS Group of companies and the T S Santhanam arm within that – WIL enjoys healthy 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 holds a 43.27% stake in the company through TV Sundram Iyengar and Sons Private Limited (20.41%, rated [ICRA]AA (Stable)/ [ICRA]A1+)), Sundaram Finance Limited (13.58%, rated [ICRA]AAA (Stable)/MAAA (Stable)/[ICRA]A1+) and Southern Roadways Limited (9.28%).

Credit challenges

Muted demand environment and potential revenue pressure in FY2021 due to Covid-19 – Majority of the company's revenues are derived from the domestic automotive and domestic/overseas earthmover industries. As a result of the demand slowdown, WIL reported a revenue decline of 17.9% YoY in 9M FY2020. Going forward, the ongoing lockdown, weakening liquidity and poor consumer sentiments are expected to significantly impact revenues for the company in FY2021.

Relatively high debt levels; weakening of coverage metrics in 9M FY2020 – The company's debt levels were relatively high at Rs. 871.2 crore as on Dec 31, 2019[1], contributed by continued debt-funded capex and discounting of purchase/sales bills to meet its working capital requirements. The relatively high debt levels and weaker operating leverage in 9M FY2020 (because of the demand slowdown) have resulted in deterioration in coverage metrics for the company. WIL's consolidated net debt/OPBDITA stood at 4.7x as on Dec 31, 2019 (3.4x as on Mar 31, 2019) while its interest coverage was 2.7x for 9M FY2020 (PY: 3.8x).

Moderate operating margins – WIL has moderate operating margins at 6.5% for 9M FY2020 (PY: 7.1% for 9M FY2019) given its limited bargaining power sandwiched between OEMs and large suppliers, competitive pressures and relatively moderate value addition. Despite the lower operating margins, deferred tax reversals arising from adopting lower corporate tax rates resulted in WIL's consolidated net margin remaining flat at 2.1% in 9M FY2020. WIL's operating margins are likely to be impacted in Q4 FY2020 and Q1 FY2021, because of the lockdown and associated loss of sales/weaker absorption of fixed costs. While the negative operating leverage will impact margins in FY2021, the company's cost-saving initiatives on multiple fronts are likely to lessen the margin decline.

Liquidity Position: Adequate

WIL's liquidity is adequate with positive fund flow from operations in FY2019; consolidated cash and bank balances and liquid investments of Rs. 17.5 crore as on December 31, 2019; and undrawn lines of more than Rs. 120 crore as on date. Its average working capital utilisation was ~79.4% of drawing power and 90% of Board-approved limit as on month ends for the 16-month period ended February 2020. WIL has a Board-capped working capital limit of Rs. 260 crore[2], which can be modified at short notice to enable the company to borrow more if required. In relation to these sources of cash, WIL has a total consolidated capex commitment of ~Rs. 103.5 crore for FY2021 and FY2022 (to be funded through mix of debt and internal accruals), and term loan repayments of Rs. 61.3 crore and Rs. 72.7 crore respectively in FY2021 and FY2022. Overall, ICRA expects WIL to be able to meet its medium-term commitments through internal sources of cash and tied-up debt. Further, WIL enjoys strong financial flexibility and lender/investor comfort, and this is expected to continue going forward as well.

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

[2] Excluding bills discounting

Rating sensitivities

Positive triggers – An upgrade is unlikely in the near term, given the negative outlook on the auto component and construction equipment industries owing to the expectation of severe impact of the Covid-19 outbreak and the macroeconomic slowdown on the business. Nonetheless, sustained improvement in its credit profile through improvement in profit margins and leverage metrics, could lead to an upgrade over the medium term.

Negative triggers – Negative pressure on WIL's rating could arise from prolonged impact of Covid-19 leading to weak performance and 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

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 80% of its consolidated revenues from the domestic market and its manufacturing facilities[3] are located at Padi (TN), Rampur (UP), Pune (Maharashtra), Sriperumbudur (TN), Pantnagar (Uttarakhand), Deoli (Maharashtra), Thirumudivakkam (TN), Vanod (Gujarat) and Bawal (Haryana). The company is part of the larger TVS Group (T S Santhanam arm), with 43.27% stake held by the TVS Group through TV Sundram Iyengar and Sons Private Limited (20.41%), Sundaram Finance Limited (13.58%) and Southern Roadways Limited (9.28%). Titan Europe Limited holds 20.00% stake (as against 34.23% in March 2019). 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.

[3] Includes that of subsidiaries

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	2,562.6	3,441.3
PAT (Rs. crore)	73.4	74.3
OPBDIT/ OI (%)	7.8%	7.1%
RoCE (%)	13.6%	12.9%
Total Outside Liabilities/ TNW (times)	1.9	2.1
Total Debt/ OPBDIT (times)	3.1	3.4
Interest coverage (times)	4.4	3.7
Debt Service Coverage Ratio (times)	1.2	1.6

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

Rating history for last three years:

	Instrument			Current Rating (FY2021)		Chronology of Rating History for the past 3 years @					
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY19		Date & Rating in FY18		Date & Rating in FY17	
					30-Apr-20	22-Mar-19	04-Apr-18	08-Jan-18	12-Jun-17	22-Dec-16	03-Aug-16
1	Fixed deposit	Medium term	150.00	-	MA+ (Negative)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)
2	Term loan	Long term	147.81	147.81	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[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+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Unallocated	Long term	42.19	-	[ICRA]A+ (Negative)	-	-	-	[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	-	-	-	[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	-	7-8%	-	150.00	MA+ (Negative)
NA	Commercial Paper	-	-	-	100.00	[ICRA]A1+
NA	Term Loans	FY2014	8.1%	FY2024	147.81	[ICRA]A+ (Negative)
NA	Fund based facilities- Cash Credit	Not applicable			260.00	[ICRA]A+ (Negative)
NA	Long-term-unallocated	Not applicable			42.19	[ICRA]A+ (Negative)
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

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