Wheels India Limited

Corporate| Auto Ancillary

Credit Perspective

April 2019

RATING ACTION

Ratings reaffirmed; rated amount enhanced

Long - term Rating

[ICRA]A+ (Stable)

Medium - term Rating

MA+ (Stable)

Issuer Rating

Nil

Short - term Rating

[ICRA]A1+

Total Limits Rated

Rs. 850.00 crore

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Rating Rationale

The reaffirmation of the ratings favorably factors in Wheels India Limited's (WIL) 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.

In 9M FY2019, WIL's revenues increased 32% YoY to Rs. 2,328.1 crore (9M FY2018 – Rs. 1,760.6 crore) supported by robust growth across all segments of original equipment manufacturers (OEM) and a low base due to the Goods And Service Tax (GST) implementation in 9M FY2018. However, the operating margins dipped to 7.4%, owing to an increase in employee cost and an increase in the cost of raw materials. That said, WIL's overall profitability (Return on Capital Employed) improved from 12% in FY2014 to 13.7% in FY2018, supported by asset sweating. Going forward, given the highly capital-intensive nature of business (OI/Gross block of 200%), which necessitates regular investment in fixed as well as working capital assets, the ROCE is expected to improve moderately with higher asset sweating.

The ratings remain constrained by the susceptibility of revenues to the cyclicality and the technology trends in automobile industry, especially in the passenger vehicle (PV) segment, where auto majors are moving towards alloy wheels as against steel rims manufactured by WIL. In this context, entry into counter-cyclical segments like the recent foray into the railway components business and the already existing power segment aids to de-risk revenue concentration and mitigate the cyclicality.

The rating also considers the vulnerability of earnings to fluctuations in foreign exchange in the absence of complete hedging of its receivables. WIL follows a hedging using forward contracts of only a portion of its exposure (unhedged exposure as at March 31, 2018 is Rs. 55.81 crore). Its need to continually invest in capital assets (partly being debt funded), results in a moderate capital structure. Going forward, WIL's ability to sustain revenue growth and improve profitability while improving its capital structure will remain key rating monitorables.

Rating Outlook

ICRA believes WIL will continue to benefit as the largest steel wheel rim manufacturer in India with a dominant market share and diverse customer base.

Scenarios for Rating Upgrade

The ratings may be upgraded if substantial growth in revenues and profitability are achieved with improvement in capital structure

Scenarios for Rating Downgrade

The ratings may be downgraded if cash accrual is lower than expected, or if any major capital expenditure, results in a weaker financial profile.

Key Rating Considerations

Credit Strengths

- Largest wheel rim manufacturer in the country and one of the largest earth moving equipment (EM) rim manufacturers globally
- Dominant market position in wheel rims and high share of business with most OEMs across segments lends business stability
- Diversified customer base and broad product portfolio that caters to all segments in the automobile industry (except two-wheelers)
- As a part of the TVS Group, WIL enjoys considerable financial flexibility with financial institutions

Credit Challenges

- Exposure to cyclicality in the auto industry, given the heavy dependence on the same
- Capital-intensive industry with continuous debt-funded capex resulting in a leveraged capital structure
- Stiff competitive pressures and adverse fluctuations in foreign currency movements (export business accounts for 16% of the revenues in FY2018) impacts margins

Company Profile

Wheels India Limited (WIL), part of the TVS Group of Companies, was incorporated in 1960 as a joint venture between Dunlop, UK (a 35.9% stake) and the TVS Group (the remaining stake). In 1999, Titan Europe Plc. (Titan Europe) of Titan International Inc. (rated by Moody's B3/ratings under review for downgrade in January 2019) bought out Dunlop's 35.9% stake 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 the 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, earth moving/construction and consumer applications. In March 2014, 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 the TVS Group) was 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, commercial vehicles (CVs), utility vehicles (UVs), 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 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 sold its light passenger wheels business in Bawal and Padi plants to its subsidiary WIL Car Wheels Limited w.e.f from September 1, 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 a 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.

BUSINESS RISK PROFILE

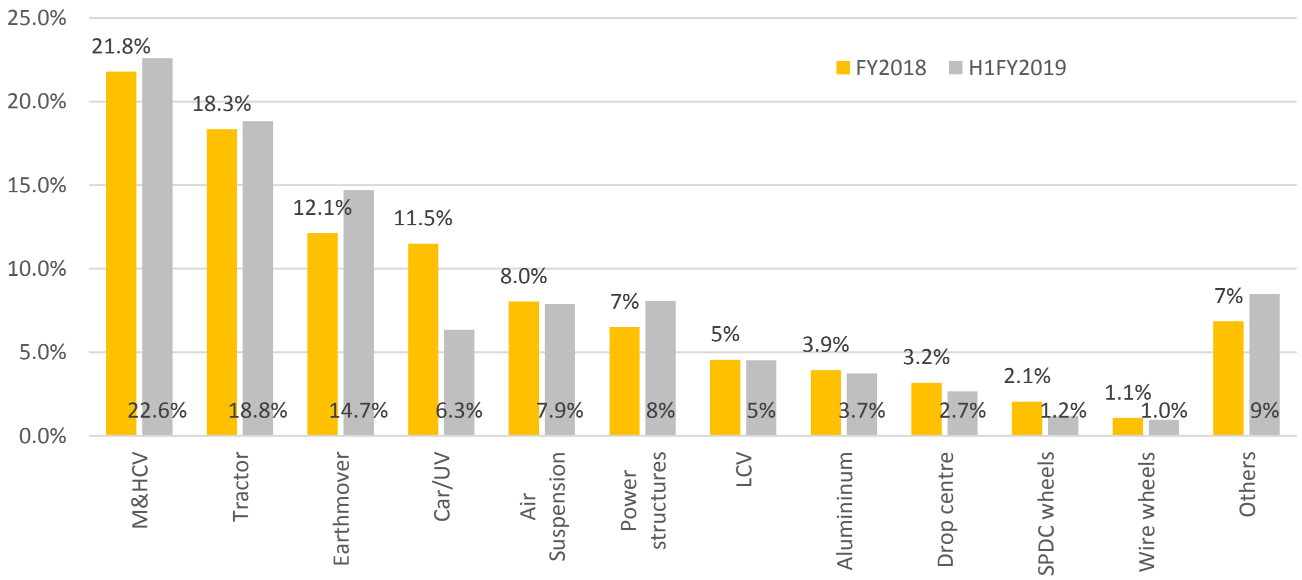
Largest wheel rim manufacturer in India; one of the largest EM equipment rim manufacturers globally

WIL is the largest manufacturer of wheel rims in India, catering to the heavy commercial vehicle (HCVs), light commercial vehicles (LCVs), passenger cars, tractors, agricultural applications, off-road construction vehicles and with an established presence in the global EM wheel rim industry. Apart from the wheel rims (74% of total revenue in FY2018), WIL manufactures air suspension systems for buses (8%) and power structures used in the windmill industry (7%). Recently, it has forayed into manufacturing components for the railway industry. The company has a geographically well-diversified revenue profile with 82% revenues derived from domestic markets and 16% from exports.

Diversified customer base and broad product portfolio catering to most segments of automobile industry

WIL's sales mix is well spread across more than 30 OEMs, with top three OEMs –Tata Motors Limited (TML; rated [ICRA]AA (Stable)/[ICRA]A1+); Ashok Leyland Limited (ALL; rated [ICRA]AA/Positive/[ICRA]A1+) and Mahindra & Mahindra Limited (M&M; rated [ICRA]AAA/Stable/[ICRA]A1+) – accounting for over 47% of total sales in FY2018. In terms of product diversification, tractors contribute 18.8%, M&HCV 22.6%, LCV 5%, EMs 14.7%, drop centre wheels (wheels used in tubeless commercial vehicles) 2.7% and passenger vehicles (PVs) 6.3% of the revenues. This apart, power structures and railways together contributed 8% and air suspension accounted for 8% revenues in H1FY2019. Thus, the diversification across the OEMs and different industry segments stood the company in good stead, minimising the extent of cyclicality inherent to the auto industry to an extent.

EXHIBIT 1.By product – FY2018 and H1 FY2019



Source: Company, ICRA estimates; Wire wheels are wheel rims with spokes; SPDC are special purpose drop centre wheels for light vehicle for tubeless tyre application

Exposure to cyclicality in auto industry mitigated by diversification in counter-cyclical industry

WIL's auto business accounted for 80% of revenues in FY2018, exposing it to the cyclical trends in the automobile industry. It presence was also restricted to steel wheel rims in the PV segment, wherein a rapid penetration of aluminium alloy wheel rims has taken place. At present, alloy wheels account for about 25-27% of the domestic automotive wheel rim requirement in the Indian PV industry; its share is increasing gradually. In this context, the entry into counter-cyclical segments like power segment and railway components aids in de-risking the revenue concentration and mitigates the cyclicality in the auto industry. During the latter part of FY2018, the company started supplying bogie frame and bogie bolsters for Linke Hofmann Busch (LBH) coaches for Indian Railways.

Healthy revenue growth in 9M FY2019; recent foray into railway components expected to support top-line growth

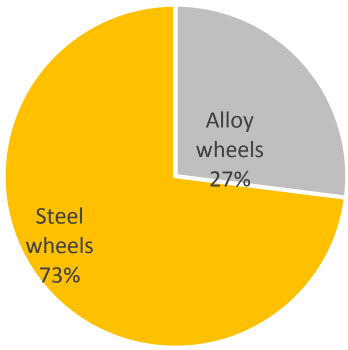
Revenues grew by 32% in 9M FY2019, supported by the robust growth across all segments of OEMs and a low base due to the goods and service tax (GST) implementation in 9M FY2018. During H2 FY2018, WIL started supplying bogie frame and bolster to the Integral Coach Factory of the Indian Railways, for manufacturing LBH coaches. The company clocked Rs. 10-crore revenues during H2 FY2018 and expects healthy revenue traction from this segment going forward.

Intense competition and movements in foreign exchange rates impacts margins

The intense competition in the steel wheel rim industry, along with the penetration of alloy wheel rims in the passenger wheel rims segment, exerts pressure on the company's market share. At present, alloy wheels account for about 25-27% of domestic automotive wheel rim requirement in the Indian PV industry and its share is increasing gradually. The company has taken a strategic call to not enter the alloy wheel rims market in the PV segment given the intense competition.

WIL's revenues are also susceptible to any adverse fluctuations in foreign currency movements, given that the export business accounted for 16% of the revenues in FY2018. The company hedges only a portion of its exposure (unhedged exposure as on March 31, 2018 was Rs. 55.81 crores), thus its profitability remains exposed to foreign exchange fluctuations risk.

EXHIBIT 2. Domestic wheel rim industry segmentation



Source: ICRA research

Dominant market position in wheel rims and high share of business with most OEMs lends business stability

WIL enjoys a leading market position in the domestic wheel rim industry with a large share of business with several leading OEMs across various segments. The company enjoys 45% market share in M&HCV, 74% in LCV, 57% in tractors and 31% in PV segment. With revenues of around ~Rs. 2,500 crore in FY2018 and more than five-decade- long track record in the wheel rim industry, the company is a dominant player.

Healthy utilisation levels due to growth in all industry segments and measures to improve productivity

In the recent past, WIL has not undertaken any major capacity increase. The total capacity as on March 31, 2018 was 16.5 million rims per annum. In September 2017, WIL hived off its passenger car wheel business servicing multinational PV OEMs into a 74% subsidiary, WCWL. This resulted in revised capacities (standalone) of 10 million wheel rims per annum. WIL's utilisation levels improved in H1 FY2019, supported by growth in all industry segments and productivity improvement measures undertaken. Over FY2020 and FY2021, the company proposes to set up a cast aluminium plant at an expenditure of Rs.130 crore; this will be funded through Rs. 100-crore term loan and the balance through internal accruals. These products are targeted at the export market catering to CVs and UVs. This apart, no capacity expansion measures are planned in the near to medium term.

Considerable financial flexibility with financial institutions as part of TVS Group

WIL is part of the larger TVS Group of Companies, with Sundaram Finance Limited (rated [ICRA]AAA (Stable)/[ICRA]MAAA (Stable)/[ICRA]A1+ reaffirmed in December 2018), TVS Sundaram Iyengar & Sons Limited ([ICRA]AA/Stable/A1+ reaffirmed in February 2018) and Southern Roadways Limited together holding a 40.77% stake in the company.

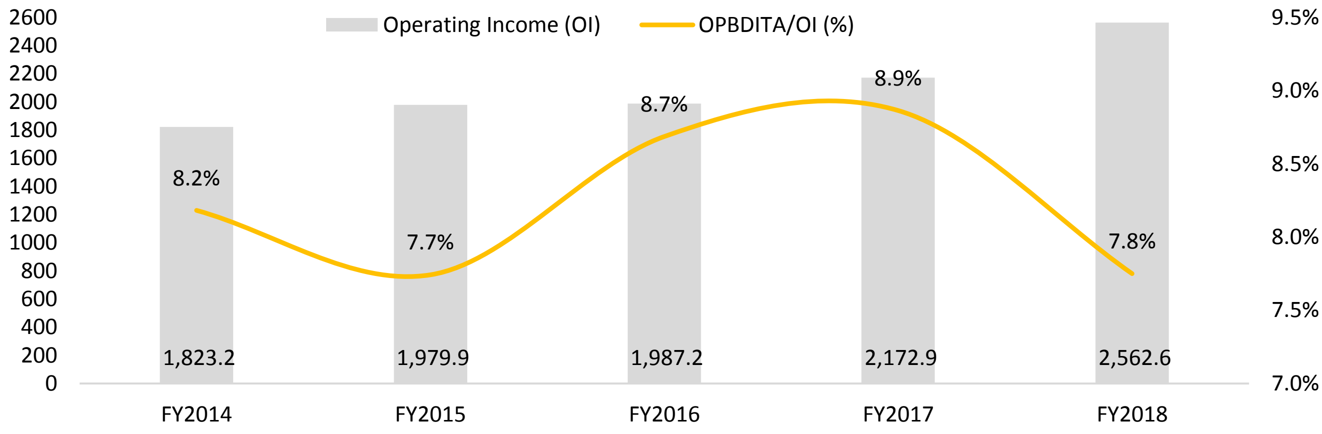
FINANCIAL RISK PROFILE

For arriving at the ratings, ICRA has considered the consolidated financials of Wheels India Limited. As on March 31, 2018, the company had one 74% subsidiary (WCWL) and one 9.51% associate (Axles India Limited). WIL standalone accounted for 96% of revenues, 96% of OPBDITA, 97% of PAT and 100% of debt during FY2018.

Improvement across all industry segments and low base effect support top-line growth; however, operating margins contract

In9M FY2019, WIL's standalone revenues increased 32% YoY to Rs. 2,328.1 crore (9M FY2018 – Rs. 1,760.6 crore) supported by robust growth across all segments of OEMs and a low base due to GST implementation in 9M FY2018. However, the operating margins dipped to 7.4% in 9M FY2019, owing to an increase in employee cost and increase in cost of raw materials. That said, the company's operating margins have always remained rangebound between 7% and 9%.

EXHIBIT 3. Revenue and operating margins trend - Consolidated



Source: ICRA estimates

WIL's consolidated profitability (Return on Capital Employed) improved from 12% in FY2014 to 13.7% in FY2019e supported by higher asset sweating. Going forward, given the highly capital-intensive nature of business which necessitates regular investment in fixed as well as working capital assets, the ROCE is expected to improve moderately with higher asset sweating.

Moderate working capital intensity

The working capital intensity of WIL continued to be moderate at 25.8% in FY2018, with higher payables supporting the increase in receivables. The company had a stretched receivables position owing to the high bargaining power of its large customers and with higher March-end sales, the debtor position was further stretched. WIL stocks steel based on its expectations of commodity price movements and owing to the new railway business the inventory position were stretched. The company discounts a portion of its receivables and does factoring arrangement to support its cash flows, which provides some comfort to its liquidity position.

Capital-intensive industry with continuous debt-funded capex leading to leveraged capital structure

The total debt of the company consists of term loans, working capital borrowings from the bank, commercial paper, bills discounting and public deposits. These cumulatively stood at Rs.599.5 crore as on March 31, 2018.The company also availed new term loan of Rs. 45.0 crore in H1 FY2019. WIL spent ~Rs.120.0 crore in FY2018 and plans to incur ~Rs. 500.0 crore on a consolidated basis over the three years (FY2019-FY2021). While a part of the capex is planned to be debt funded, ICRA expects the capital structure to remain broadly at the current levels with TD/TNW at 1x and TD/OPBDITA at 3x as on March 31, 2018.

CAPITAL EXPENDITURE AND FUNDING PLANS

Capex plans for next three years

WIL has plans to incur ~Rs. 500.0 crore on a consolidated basis over the next three years (FY2019-FY2021). Past investments were largely towards regular maintenance, de-bottlenecking efforts, automation and enhancing productivity improvements across plant. Investments planned in the future, majorly included spend towards setting up a cast aluminium plant to cater to trucks and all-terrain vehicles, disc line facility in its wholly-owned subsidiary WIL Car Wheels Limited (WCWL) at Vanod and the rest towards regular maintenance and automation, and to enhance productivity improvements. The capital expenditure would be funded through a mix of debt and internal accruals.

DEBT REPAYMENT AND LIQUIDITY PROFILE

The liquidity position of the company is comfortable. WIL utilises about 86% of its sanctioned working capital limits and 63% of its drawing power, maintaining a buffer in the form of undrawn bank lines. It also extensively uses commercial paper (CP) for its working capital requirements, which is within its working capital limits. The company's undrawn lines of credit (working capital and term loan) and cash accruals are sufficient to fund its capital expenditure and repayment obligations.

EXHIBIT 3: Trend in Debt Repayments

In Rs. crores	FY 2019P	FY 2020P	FY 2021P
Annual Debt Repayments	34.7	37.8	30.0

Source: Company data; ICRA research

BUSINESS AND FINANCIAL OUTLOOK

ICRA has provided a revenue growth outlook of 15-16% (ICRA's sample of 48 large auto ancillaries) for FY2019e and 10-11% for FY2020. The former is supported by the healthy volume growth in 2Ws, CVs and tractors as well as 4%-5% impact of commodity prices on realisation. The latter is supported by increased content per vehicle, supported by the transition to BS VI and mandatory safety norms. While the revenue growth rate is expected to slow down from 20%+ witnessed in H1 FY2019e, the overall growth rate is expected to remain in the double digit. However, the sharp depreciation in the rupee will weigh on imports which, along with commodity price increases in FY2019, will create pressure on margins. Nonetheless, the commodity price pressures are expected to ease in FY2020.

EXHIBIT 4: Financial Outlook

Parameters	ICRA's Comments
Revenue Growth	8-10% year-on-year growth for the next two years (FY2020-FY2021), primarily aided by pickup in auto demand
Profitability Indicators	Operating margins to remain rangebound at 7.5%-9%
Repayment Obligations	Rs. 34.7 crore in FY2019, Rs. 37.8 crore in FY2020, Rs.30.0 crore in FY2021
Capital Expenditure Plans	Rs. 500 crore during the three-year period (FY2019-FY2021); funded through mix of debt and internal accruals
Leverage and Coverage Indicators	Capital structure to remain broadly at the current levels
Working Capital Intensity	Working capital intensity to be maintained at the current levels
Retained Cash Flows	To remain comfortable with healthy fund flow from operations supported by profits and stable working capital position
Liquidity	Cash balances of Rs. 5-6 crore maintained

Source: ICRA research

PROMOTER AND MANAGEMENT PROFILE

Mr. Srivats Ram has been Managing Director of Wheels India Limited (WIL) since May 1, 2013. Mr. Ram has over three decades of work experience in the automotive and component Industry. He has served as one of the former presidents of Automotive Component Manufacturers Association of India (ACMA). He is on the board of several TVS Group companies like Axles India Ltd, T V Sundaram Iyengar and Sons Limited, Sundaram Industries Ltd, and Southern Roadways Ltd., among others.

Annexure-I: Key financial indicators

In Rs. Crore	FY2014	FY2015	FY2016 Consolidated	FY2017	FY2018	9M FY2019 Standalone
Revenue & Profitability Indicators						
Operating Income (OI)	1,823.2	1,979.9	1,987.2	2,172.9	2,562.6	2,328.1
Growth in OI (%)	-5.2%	8.6%	0.4%	9.3%	17.9%	32.2%
OPBDITA	149.2	153.3	172.6	192.6	198.6	171.4
Profit After Tax (PAT)	28.4	29.7	40.0	58.4	73.4	56.0
Net Cash Accruals (NCA)	75.3	79.0	92.6	107.3	119.7	101.0
OPBDITA/OI (%)	8.2%	7.7%	8.7%	8.9%	7.8%	7.4%
PAT/OI (%)	1.6%	1.5%	2.0%	2.7%	2.9%	2.4%
ROCE (%)	12.0%	11.5%	12.5%	13.1%	13.7%	
Capitalisation & Coverage Indicators						
Short-term Debt	233.9	238.4	219.2	251.2	389.7	
Long-term Debt	205.4	241.3	249.0	235.1	209.7	
Total Debt	439.3	479.7	468.2	486.3	599.3	
Tangible Net Worth (TNW)	363.6	381.1	414.2	468.7	586.6	
Total Debt/TNW	1.2	1.3	1.1	1.0	1.0	
Total Debt/OPBDITA	2.9	3.1	2.7	2.5	3.0	
Interest Coverage	2.7	2.6	3.0	4.0	4.4	
TOL/TNW	2.4	2.5	2.3	2.2	2.1	
NCA /TD (%)	17.1%	16.5%	19.8%	22.1%	20.0%	
DSCR (excl STD/prepayments)	1.0	1.1	1.2	1.6	1.2	
Working Capital Indicators						
Debtor Days	77	80	76	87	102	
Creditor Days	93	97	102	108	101	
Inventory Days	54	50	63	54	61	
NWC/OI (%)	19.0%	19.5%	20.5%	20.3%	25.0%	
Cash Flow Analysis						
Fund Flows from Operations	86.5	88.6	104.0	128.2	118.2	
Retained Cash Flows	55.2	37.5	74.9	69.2	-92.6	
Free Cash Flows	-98.7	-108.1	-121.1	-119.0	-369.8	

Source: Company data; Standalone data is not available for balance sheet figures

ANNEXURE II: DETAILS OF RATED FACILITY

Bank limits rated on long-term scale	Amounts (Rs. crore)	Rating
Term-loan facilities		[ICRA]A+(Stable); ratings reaffirmed/assigned
Exim Bank	3.50	
Bajaj Finance	-	
Kotak Mahindra Bank	12.50	
Axis Bank	9.40	
Tata capital	7.50	
HDFC Bank	60.60	
Unallocated	66.50	
Sub-Total (i)	**160.00**	
Fund Based Facilities		
United bank of India- Cash credit	88.00	
Standard Chartered Bank- Cash Credit	55.00	
State Bank of India – Cash Credit	69.00	
HDFC Bank – Cash Credit	48.00	
Sub-Total (ii)	**260.00**	
Total (i + ii)	**420.00**	

Bank limits rated on short-term scale	Amounts (Rs. crore)	Rating
Non-fund based facilities		[ICRA]A1+; ratings reaffirmed
United bank of India	72.00	
Standard Chartered Bank	42.00	
State Bank of India	24.00	
HDFC Bank	12.00	
Total	**150.00**	

Bank limits rated on both long-term and short-term scale	Amounts (Rs. crore)	Rating
Non-fund based facilities		[ICRA]A+/Stable/ [ICRA]A1+; ratings reaffirmed
LT/ST Unallocated facilities	30.00	
Total	**30.00**	

Commercial Paper programme	Amounts (Rs. crore)	Rating
		[ICRA]A1+; ratings reaffirmed
Commercial Paper programme	100.00	
Total	**100.00**	

Fixed Deposit Programme	Amounts (Rs. crore)	Rating
		MA+/Stable; ratings reaffirmed
Fixed Deposits	150.00	
Total	**150.00**	

Source: Company data

RELATIONSHIP CONTACT

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in and www.icraresearch.in

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