December 24, 2021

Maxion Wheels Aluminum India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	206.0	206.0	[ICRA]BBB+(Stable); reaffirmed
Long-term Fund-based – Working Capital	134.0	134.0	[ICRA]BBB+(Stable); reaffirmed
Total	**340.0**	**340.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Maxion Wheels Aluminum India Private Limited's (MWAIPL) strong parentage as a wholly-owned subsidiary of Iochpe-Maxion Austria GmbH, with the ultimate holding company being Iochpe-Maxion S. A., Brazil. MWAIPL benefits from the Iochpe-Maxion Group's operational expertise in wheel rim manufacturing for the automobile industry as well as the track record of timely financial support to the company in the form of regular equity infusion. MWAIPL has so far received ~Rs. 416 crore equity infusion till date, of which Rs. 181 crore was received in CY2021, and this has been utilised towards partially funding the capital expenditure (capex) and to address funding gaps. ICRA expects Iochpe-Maxion to continue to extend timely financial support to MWAIPL, should there be a need, given the operational linkages between them. This is in addition to the equity infusion required for funding the company's capex requirements.

The company started operations in July 2019 with an installed capacity of 5 lakh wheel rims per annum and gradually ramped up the capacity to 11 lakh wheel rims in the current year. With the disruptions brought about by the pandemic over the past year and a half, there have been some slight time and cost overruns in the project, with project cost for capacity of 20 lakh wheels per annum increasing to Rs. 448 crore (from Rs. 395 crore earlier), and the project timeline being extended to December 2023 (from December 2022 earlier). Of the revised project costs of $64 million, ~$47 million or ~Rs. 320 crore has been incurred till date and the balance would be incurred over CY2022 and CY2023, to be funded by term loan from banks. The capex till date has been funded by a mix of debt and equity with debt of Rs. 206 crore availed, and the balance through equity infusion from the parent.

Despite the slight overrun in project costs and timelines, ICRA draws comfort from the ramp-up in operations over the recent months, with easing of lockdown restrictions and higher offtake from the OEMs. Accordingly, the company generated OI of Rs. 268.8 crore in 9M CY2021, as compared to Rs. 166.2 crore reported in full year CY2020. Additionally, while MWAIPL had reported operating loss of Rs. 34.4 crore in CY2020, with increase in scale of operations leading to higher absorption of fixed overheads, the operating profit stood at Rs. 8.4 crore in 9M CY2021. While MWAIPL continues to generate net losses given the high interest and depreciation expenses, this is expected to be gradually pared down as the operations ramp up to optimal levels. Given the healthy order book in hand from multiple OEMs, ICRA expects the ramp-up to continue at a steady pace over the near to medium term. However, the ongoing challenges faced by the automobile industry on account of semiconductor chip shortage remains a concern and any prolonged impact of the same on the company will remain a key monitorable.

The rating also factors in the vulnerability of the company's profits to adverse fluctuation in aluminium ingot prices, being the key raw material, and foreign exchange rates in the absence of a specific hedging policy. ICRA also notes that operations are currently loss-making at the net profit level due to the nascent stages of operations, which could put pressure on the company to service its sizeable debt repayment obligations over the near term. However, the history of financial support from the parent entity provides comfort. ICRA also notes the susceptibility of its revenues to cyclicality and technological changes in the passenger vehicle (PV) industry.

The Stable outlook on the rating reflects ICRA's opinion that MWAIPL will continue to benefit from its strong parentage, by way of timely financial support and access to OEM customers.

Key rating drivers and their description

Credit strengths

Operational expertise and financial support from parent, Iochpe-Maxion Group - MWAIPL is a wholly-owned subsidiary of Iochpe-Maxion Austria GmbH, with the ultimate holding company being Iochpe-Maxion S. A., Brazil. The Iochpe-Maxion Group has an established presence in the automotive segment with an extensive experience in the wheel manufacturing industry. Through its parentage, MWAIPL has access to the Group's advanced technical knowhow in aluminium wheel manufacturing and vast client base. Furthermore, ICRA draws comfort from the timely financial support in the form of equity (~Rs. 416 crore till date, of which Rs. 181 crore has been received in the current year) towards partially funding the capex plans and to meet operational expenses. ICRA expects Iochpe-Maxion to continue to extend timely financial support to MWAIPL, should there be a need, given the operational linkages between them, and would remain a key rating sensitivity.

Attractive location of plant near many OEMs - The company's plant is located at Khed Taluka, Pune (Maharashtra) which is in the vicinity of many OEMs, including Volkswagen/Skoda, Mahindra & Mahindra, Fiat, Mercedes Benz, Tata Motors and Jaguar Land Rover. MWAIPL will have access to them by virtue of the Group's established relationships with all major OEMs as well as its global presence.

Credit challenges

Nascent stage of operations resulting in net losses - The commercial production at MWAIPL's manufacturing plant in Khed taluka, Pune (Maharashtra), started in July 2019 with an annual production capacity of 5 lakh aluminium wheel rims, which has gradually increased to 11 lakh aluminium wheel rims per annum in the current year. In CY2020, MWAIPL reported an operating income of Rs. 166.2 crore (Rs. 145.4 crore in CY2019) and an operating loss of Rs. 34.4 crore in CY2020, against Rs. 31.1 crore in CY2019 due to higher selling expenses. In the current fiscal, the company has reported impressive ramp-up in capacity utilisation, on the back of increased offtake from key OEMs, resulting in capacity utilisation of 76% (annualised) in 9M CY2021 from 36% in CY2020. ICRA expects the company to report operating profits in CY2021, while the net losses are expected to continue over the near term, although expected to gradually reduce as operations scale up.

Profit margins vulnerable to fluctuations in aluminium ingot prices and exchange rates, amid intense industry competition - The company is susceptible to volatility in aluminium ingot prices (its major raw material), though the same is being passed on to its customers with a lag. MWAIPL remains exposed to foreign exchange rate fluctuations as the aluminium ingot requirement is met through imports, while its entire sales are restricted to the domestic market. At present, it does not have any foreign exchange hedging policy. The company faces stiff competition from other established wheel rim suppliers in the Indian market, which limits pricing flexibility.

Sizeable debt repayment obligations over near term; support from parent company provides comfort - Given the large debt-funded capex undertaken, MWAIPL has sizeable repayment obligations over the near term, of ~Rs. 50 crore over CY2021 and CY2022. Although this would only be partially met through the company's cash flows, comfort is drawn from the track record of support from the parent company, with equity infusion of over Rs. 230 crore over CY2020 and CY2021 to meet capex and operational expenses. Thus, despite the sizeable repayment obligations, the history of timely support from the parent company offers comfort regarding its ability to tide over cash flow mismatches in meeting its repayments.

Exposure to cyclicality and technological changes in PV industry - The company's entire sale of aluminium wheel rims goes to the PV industry, thereby exposing it to the cyclical trends in the industry. Furthermore, the ongoing semiconductor chip shortage may impact the ramp-up in MWAIPL's production over the near term from earlier envisaged plans.

Liquidity position: Stretched

On a standalone basis, MWAIPL's liquidity is likely to remain stretched till the company ramps up production to optimal levels. The company had cash and equivalents of Rs. 2.7 crore and Rs. 43 crore buffer from unutilized bank lines as on September 30, 2021; while the debt repayments in CY2021 stand at Rs. 36.1 crore. ICRA continues to draw comfort from the timely financial support extended by Iochpe-Maxion to MWAIPL in the form of equity and expects the parent company to extend need-based financial support, going forward, given the operational linkage between them.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company is able to demonstrate continued healthy ramp up in production and capacity utilisation, aided by its ability to maintain a healthy share of business from the OEMs, such that it is able to achieve cash breakeven on a sustained basis.

Negative factors – Negative pressure on the ratings could arise from prolonged impact of the semiconductor chip shortage leading to sustained weakening in performance and deterioration in liquidity or coverage metrics. Downward pressure could also arise from weakening of credit linkages or strategic ties with the parent company, or in case of inadequate timely support from the parent company for meeting any requirements.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Impact of Parent or Group Support on an Issuers Credit Rating
Parent/Group Support	Parent Company: Iochpe Maxion Austria GmbH (ultimate holding company: Iochpe Maxion S.A., Brazil) ICRA expects MWAIPL's parent company to extend timely financial support to it, should there be a need, given the operational linkages between them. There also exists a track record of the parent company having extended financial support to MWAIPL in the form of equity.
Consolidation/Standalone	The rating is based on standalone financial profile of the company.

About the company

Incorporated in December 2017, MWAIPL is a wholly-owned subsidiary of Iochpe Maxion Austria GmbH, with the ultimate holding company being Iochpe Maxion S. A., Brazil. MWAIPL has set up a greenfield plant to manufacture aluminium wheel rims for PVs in Khed Taluka, Pune (Maharashtra). The commercial production commenced from July 4, 2019 with a manufacturing capacity of 5 lakh wheel rims per annum, which has gradually ramped up to 11 lakh per annum in the current year. The annual production capacity is proposed to be ramped up to 20 lakh wheel rims by December 2023.

Key financial indicators

MWAIPL	CY2019 (Audited)	CY2020 (Audited)	9M CY2021 (Provisional)
Operating Income (Rs. crore)	145.4	166.2	268.8
PAT (Rs. crore)	-50.8	-95.6	-31.8
OPBDIT/OI (%)	-21.4%	-20.7%	3.1%
PAT/OI (%)	-34.9%	-57.5%	-11.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	4.5	1.8
Total Debt/OPBDIT (times)	-7.0	-8.7	18.4
Interest Coverage (times)	-2.8	-1.2	0.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 24, 2021	Sep 21, 2020	Aug 30, 2019	May 28, 2018
1	Term Loans	Long-term	206.0	178.2	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	--
2	Fund based bank facilities	Long-term	134.0	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	--
3	Unallocated limits	Long-term	--	--	--	--	--	[ICRA]BBB+ (Stable

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund Based – Working Capital	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
HSBC Bank	Term Loan	Aug 13, 2018	NA	CY2025	206.0	[ICRA]BBB+(Stable)
HSBC Bank	Fund based limits	NA	NA	NA	134.0	[ICRA]BBB+(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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.

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