February 16, 2023

Kalyani Maxion Wheels Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	95.00	115.00	[ICRA]A+(Stable); reaffirmed/assigned
Short-term – Non-fund Based	219.00	274.00	[ICRA]A1; reaffirmed/assigned
Total	**314.00**	**389.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Kalyani Maxion Wheels Private Limited (KMWPL/ the company) factors in its strong presence in the domestic steel wheel rim industry with a healthy share of business with leading automobile majors in the commercial vehicle (CV) segment, and an increasing presence in the passenger vehicle (PV) segment. The company also benefits from strong operational and technological support from its parent entity, Iochpe Maxion S. A., Brazil.

The ratings also factor in the healthy operational performance in CY2021 and CY2022 in line with the overall improvement in the domestic automobile industry and healthy offtake from Origninal Equipment Manufacturers (OEMs) after the waning of the pandemic. With the increase in volumes from client OEMs across both CV and PV segments, and increasing realisations on the back of firm commodity prices, the company reported a YoY growth 111% and 25% in revenues in CY2021 and CY2022, respectively, to close the year with total revenues of Rs. 1,002.7 crore (as per provisional financials). Further, operating profitability also improved to 6.7% in CY2021 and further to 8.2% in CY2022 from 3.1% in CY2020 as a result of operating leverage benefits. Nevertheless, with 30-40% of revenues derived from export markets, and the ongoing global macroeconomic headwinds, the sustainability of the improvement in performance remains to be seen,

The rating strengths are partially offset by the susceptibility of operating margins to fluctuations in steel prices and foreign exchange (forex) rates as well as stiff competition from other established players in the industry, which limits its pricing power. ICRA also notes the susceptibility of the company's revenues to cyclicality and technology trends in the automobile industry, including the increasing penetration of alloy wheels in the PV sector, which poses risks to its business of steel wheel supplies. Nevertheless, its efforts to mitigate this risk through sale of patented versa-style wheels, which can be used as a substitute for alloy wheels offers some comfort.

The Stable outlook on the long-term reflects ICRA's opinion that the company will continue to benefit from the strong support from its promoter entity and the established track record of its operations, and maintain its comfortable financial risk profile over the medium term.

Key rating drivers and their description

Credit strengths

Leading manufacturer of steel wheel rims with a respectable presence in the domestic M&HCV market – KMWPL is one of the leading manufacturers of steel wheel rims in India, catering to medium and heavy commercial vehicles (M&HCVs), light commercial vehicles (LCVs), PVs, off-road construction vehicles and military vehicles. The company has a respectable share of business with leading automobile majors in the CV segment, and an increasing presence in the PV segment.

Operational and technological support from parent entity, which is one of the largest wheel rims and structural components suppliers globally – KMWPL is a subsidiary of Maxion Wheels Konigswinter GmbH, with the ultimate holding company being Iochpe Maxion S. A., Brazil, a major player in the global wheel rims market. It has benefitted significantly from its parentage through access to technology, which has helped it develop new products and improve operational efficiencies. Apart from technical support, KMWPL also has access to the vast client base of its parent company.

Comfortable financial risk profile characterised by healthy capital structure and moderate coverage indicators – The capital structure of KMWPL remained comfortable, with gearing of 1.2x as on December 31, 2021, while TD/OPBDITA stood at 3.9x in CY2021, supported by healthy cash flow generation that has limited its dependence on external borrowings. The debt protection indicators improved over CY2020 levels and remained healthy with interest coverage of 4.8x and DSCR at 3.9x for CY2021. The same is expected to remain comfortable and further improve in the absence of any debt-funded capex.

Credit challenges

Profit margins vulnerable to fluctuations in steel prices and exchange rates amid stiff competition in the industry – The company's margins is susceptible to volatility in steel prices, though the same is generally passed on to its customers with a lag. The company faces stiff competition from other established wheel rim suppliers in the Indian market, which limits pricing flexibility. Moreover, its profits are susceptible to the foreign exchange rate fluctuations since ~30-40% of its total revenues are through exports, wherein it does not follow any defined hedging policy.

Exposure to cyclicality and technological changes in the auto industry – The CV wheel rims business dominates the revenue base of the company with an average contribution of 55-60% to total revenues, followed by the PV segment at 25-30%. The overall exposure to the automobile industry remains high, thereby exposing the company to the cyclical trends in the automobile industry. Furthermore, the trend in increasing penetration of alloy wheels in the PV segment also poses risks to the company since its presence is restricted to steel wheel rim segment; nevertheless, the company's offerings of versa styled wheel rims, which enhances the styling and can be used as a substitute for aluminium wheels mitigates this risk to some extent. Through its sister company, Maxion Wheels Aluminium India Private Limited (rated [ICRA]BBB+(Positive), KMWPL caters to the alloy wheel requirement of the PV segment.

Liquidity position: Adequate

ICRA expects KMWPL's liquidity position to remain adequate with modest capital expenditure (capex) plans and no long-term debt repayments in the near term. The company's fund flow from operations has remained healthy in the past supported by moderate working capital intensity. Additionally, it had free cash and equivalents of ~Rs. 60 crore as on December 31, 2022, and undrawn fund-based working capital limits of Rs. 65.8 crore as on October 31, 2022, which further provides support to its liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded upon sustained improvement in its scale of operations and profit margins while maintaining a strong credit profile.

Negative factors – Negative pressure on the ratings could arise from sustained weakening in performance and deterioration in liquidity or coverage metrics. Net-Debt/OPBIDTA above 2.0 times on a sustained basis could also exert downgrade pressure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

KMWPL is involved in manufacturing steel wheel rims for M&HCVs, LCVs and utility vehicles (UVs). The company's manufacturing facility is located at Chakan in Pune (Maharashtra). One unit is dedicated to CVs with a manufacturing capacity of 1.2 million steel wheel rims per annum, while the second unit is dedicated to PVs with a manufacturing capacity of 4.0 million steel wheel rims per annum. It is promoted by Maxion Wheels Konigswinter GmbH (85% stake, ultimate holding company being Iochpe Maxion S. A., Brazil) and Bharat Forge Investment Limited (15% stake).

Key financial indicators (audited)

KMWPL	CY2020	CY2021
Operating income	380.1	801.2
PAT	-16.4	18.4
OPBDIT/OI	3.1%	6.7%
PAT/OI	-4.3%	2.3%
Total outside liabilities/Tangible net worth (times)	1.5	1.8
Total debt/OPBDIT (times)*	10.9	3.9
Interest coverage (times)	1.5	4.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**acceptances included as part of creditors have been classified as debt*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Feb 16, 2023	Dec 24, 2021	Oct 06, 2021	Jul 31, 2020	Apr 18, 2019
1	Fund based	Long-term	115.0	10.0	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	Non-fund based	Short-term	274.0	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based	Simple
Short -term – Non-Fund-based	Very 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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term - fund based**	NA	NA	FY2024	115.00	[ICRA]A+ (Stable)
NA	**Short-term - non-fund-based limits**	NA	NA	FY2024	274.00	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – None

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About ICRA Limited:

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