March 20, 2023

# Wheels India Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Fixed Deposits** | 215.00 | 250.00 | [ICRA]A- (Stable); reaffirmed/assigned |
| **Term Loan** | 120.62 | 120.62 | [ICRA]A- (Stable); reaffirmed |
| **Long term - Fund based facilities** | 560.00 | 560.00 | [ICRA]A- (Stable); reaffirmed |
| **Short term – Unallocated** | 3.01 | 0.00 | - |
| **Short term – non-fund-based facilities** | 240.00 | 300.00 | [ICRA]A2+; reaffirmed/assigned |
| **Total** | **1,138.63** | **1,230.62** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings reaffirmation factors in Wheels India Limited's (WIL) exceptional financial flexibility by belonging to T S Santhanam Group (a faction of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry). The T S Santhanam group holds 57.53% stake in the company through Trichur Sundaram Santhanam & Family Private Limited (29.69%, rated [ICRA]AA (Stable)/[ICRA]A1+), Sundaram Finance Holdings Limited (23.28%) and India Motor Parts and Accessories Limited (IMPAL) (4.57%, rated [ICRA]AA (Stable)/[ICRA]A1+). The ratings also positively factor in WIL's established position as one of the largest steel wheel rim manufacturers in the country in the automotive segment (except 2W) and the earthmoving and construction equipment segment globally, and its diversified segment and customer base.

However, the ratings are constrained by the company's high debt levels and its moderate operating profit margins (OPM). Debt-funding of capex, high working capital intensity and cash losses in WIL Car Wheels Limited (WCWL) have resulted in steady increase in debt in the last few years, with debt more than doubling in FY2022 and 9M FY2023 from FY2018 levels. The company's consolidated debt was Rs. 1,388.1 crore[1] as on December 31, 2022. Further, WIL has moderate operating profit margins (4.7% for 9M FY2023), given its limited bargaining power, competitive pressures, and relatively moderate value addition. The relatively high debt levels, along with moderate operating profit margins has resulted in moderate coverage metrics.

While near-term volumes could be impacted by the ongoing slowdown in exports, medium-term revenue growth is expected to be healthy, supported by steady pickup in volumes across end-user industries, ramp up in volumes in the recent commenced cast-alloy wheel business, and incremental orders from both new and existing customers across automotive and non-automotive segments. Also, while margins are expected to improve from current levels going forward, aided by product mix changes, value engineering initiatives, cost optimisation measures and benefits from operating leverage, among others, the extent of improvement remains to be seen. Notwithstanding the anticipated increase in topline and net cash accruals and other debt reduction measures undertaken by the company, WIL's consolidated debt levels are likely to remain relatively high over the medium term for its scale of operations, given the capex commitments of around Rs. 150.0 crore per year in FY2024 and FY2025 (to be funded through mix of debt and internal accruals), and WIL's high working capital requirements. However, reduction in debt levels and consequent improvement in coverage metrics would be critical.

[1] The total debt of Rs. 1,388.1 crore as on December 31, 2022, which includes lease liabilities of Rs. 24.2 crore and vendor bills discounted to the tune of Rs. 427.1 crore.

## Key rating drivers and their description

### Credit strengths

**Financial flexibility by being part of the T S Santhanam Group –** WIL enjoys exceptional financial flexibility and lender/investor comfort by belonging to T S Santhanam Group (a faction of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry). The T S Santhanam group holds 57.53% stake in the company through Trichur Sundaram Santhanam & Family Private Limited (29.69%, rated [ICRA]AA (Stable)/[ICRA]A1+), Sundaram Finance Holdings Limited (23.28%) and IMPAL (4.57%, rated [ICRA]AA (Stable)/[ICRA]A1+). Mr. S Ram, a third generation TVS family member is the Chairman of WIL's Board of Directors, while Mr. Srivats Ram, a fourth generation TVS family member, is the Managing Director and handles the day-to-day operations of the company.

**Among the largest steel wheel rim manufacturers in India –** With an operating revenue of Rs. 3,414.3 crore in 9M FY2023 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. It has established relationships with automotive and construction equipment OEMs in India and globally. WIL enjoys a dominant domestic market share of 42% in M&HCV, 80% in LCV, 55% in tractors and ~30% in passenger cars steel rims at the consolidated level.

**Diversified segment and customer base; non-wheel rim business constitutes around 25% of revenues –** The company derives over 75% of its consolidated revenues from India, while the remaining was from overseas markets. In terms of product segments, wheels constituted over 75% of the revenues, while fabricated and machined windmill components, bogie frames and bogie bolsters, air suspension systems and others constituted the remaining. Segment-wise, WIL's revenues are fairly diversified across commercial vehicles (~23% of H1 FY2023 revenues), tractors (~21% of H1 FY2023 revenues), earthmovers (~18% of revenues in H1 FY2023), passenger cars (~15% of H1 FY2023 revenues) and wind power (~8% of H1 FY2023 revenues). Within domestic wheel rims, WIL has a diversified customer base spread across 30 OEMs. Ashok Leyland Limited (ALL), Tata Motors Limited (TML), Mahindra and Mahindra Limited (M&M), Maruti Suzuki India Limited (MSIL) and Caterpillar India Private Limited were the top five customers in India, while Vestas Wind Systems A/S, Caterpillar Inc., John Deere were the top customers globally. The diversification mitigates risks arising from revenue decline from any single customer/segment to an extent.

**Healthy scale up in revenues expected over the medium term –** The company's consolidated operating income witnessed YoY growth of 22.9% to Rs. 3,414.3 crore in 9M FY2023, aided by industry pickup, increase in business with existing customers, addition of new customers and realisation improvement from the passthrough of raw material prices. While near-term volumes could be impacted by the ongoing slowdown in exports, medium-term revenue growth is expected to be healthy, supported by steady pickup in volumes across end-user industries, ramp up in volumes in the recent commenced cast-alloy wheel business, and incremental orders from both new and existing customers across automotive and non-automotive segments. However, the earnings will remain vulnerable to the inherent cyclicality in the auto industry, akin to other component suppliers.

### Credit challenges

**Relatively high debt levels –** The company's consolidated debt level remains high and stood at Rs. 1,388.1 crore[2] as on December 31, 2022. Debt-funding of capex, high working capital intensity and cash losses in WIL Car Wheels Limited (WCWL) have resulted in steady increase in debt in the last few years, with debt more than doubling in FY2022 and 9M FY2023 from FY2018 levels. The relatively high debt levels, along with moderate operating profit margins has resulted in moderate coverage

[2] The total debt of Rs. 1,388.1 crore as on December 31, 2022, which includes lease liabilities of Rs. 24.2 crore and vendor bills discounted to the tune of Rs. 427.1 crore.

metrics. The company's consolidated interest coverage stood at 2.2 times for 9M FY2023, while its NCA/Total debt stood at 6.1% for 9M FY2023. Significant reduction in debt levels and consequent improvement in coverage metrics would be critical.

**Moderate operating profit margins –** WIL has moderate operating profit margins (OPM) given its limited bargaining power, competitive pressures, and relatively moderate value addition. The OPM remained moderate at 4.7% in 9M FY2023 (vis-à-vis 6.6% in 9M FY2022), and was lower than ICRA's earlier expectations, on account of lag in pass through of commodity price increase and cost inflation. While margins are expected to improve from current levels going forward, aided by product mix changes, value engineering initiatives, cost optimisation measures and benefits from operating leverage, among others, the extent of improvement remains to be seen.

## Environmental and social risk

**Environmental considerations –** WIL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, the prospects for WIL are linked to the ability of its customers to meet tightening emission requirements. The company also remains exposed to tightening environmental regulations with regard to waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. However, WIL has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and water recycling.

**Social considerations –** Social considerations for WIL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. The company also has exposure to changing consumer preferences, including but not restricted to, increasing awareness of the potential environmental damage from emissions, shift towards Electric Vehicles (EVs), usage of sustainable materials and societal trends like preference for ride sharing.

## Liquidity position: Adequate

WIL's liquidity remains adequate with healthy anticipated cash accruals and undrawn working capital lines of over Rs. 150.0 crore as on December 31, 2022. The company had minimal cash balance as on December 31, 2022. In relation to these sources of cash, WIL has a consolidated capex commitment of Rs. 150.0 crore each in FY2024 and FY2025. The capex is likely to be funded through a combination of debt and internal accruals. Further, the company has consolidated repayments of Rs. 68.3 crore in FY2024 and Rs. 38.5 crore in FY2025 on its existing term loans. WIL enjoys exceptional financial flexibility and lender/investor comfort, and this is expected to continue going forward as well.

## Rating sensitivities

**Positive factors –** Sustained improvement in profit margins and accruals along with significant reduction in debt levels could lead to an upgrade. Specific metrics that could lead to an upgrade include total Debt/OPBDITA less than 3.0 times on a sustained basis.

**Negative factors –** Negative pressure on WIL's rating could arise from lower-than-expected scale up in revenues/profits and increase in debt levels, leading to deterioration in liquidity or leverage metrices.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating methodology for Auto Component Suppliers |
| **Parent/Group support** | Not Applicable |
| **Consolidation/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 over 75% of its consolidated revenues from the domestic market and its manufacturing facilities[3] are located at Padi (TN), Rampur (UP), Pune (Maharashtra), Sriperumbudur (TN), Namachivayapuram (TN), Pukkathurai (TN), Mambakkam (TN), Thervoy Kandigai (TN) Irungattukottai (TN), Vanod (Gujarat), and Bawal (Haryana). The company is part of the TS Santhanam group (faction of larger TVS Group), with 57.53% stake held by the group through Trichur Sundaram Santhanam & Family Private Limited (29.69%, rated [ICRA]AA (stable)/A1+), Sundaram Finance Holdings Limited (23.28%) and IMPAL (4.57%, rated [ICRA]AA (Stable)/[ICRA]A1+) as on December 31, 2022. WIL has a subsidiary, namely 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.

### Key financial indicators (audited)

| Consolidated | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 2,413.4 | 3,977.0 |
| **PAT** | 0.2 | 71.0 |
| **OPBDIT/OI** | 5.9% | 6.7% |
| **PAT/OI** | 0.0% | 1.8% |
| **Total outside liabilities/Tangible net worth (times)** | 2.7 | 3.0 |
| **Total debt/OPBDIT (times)** | 7.8 | 5.2 |
| **Interest coverage (times)** | 2.4 | 3.7 |

*Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities; PAT excludes profit from associates*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

[3] Includes that of subsidiary

## 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 (Rs. crore) as on December 31, 2022 | Date & Rating in FY2023 | | | Date & Rating in FY2022 | | | Date & Rating in FY2021 | | | Date & Rating in FY2020 |
| | | | | | Mar 20, 2023 | Jan 27, 2023 | June 13, 2022 | January 31, 2022 | December 15, 2021 | April 05, 2021 | July 08, 2020 | June 12, 2020 | April 30, 2020 | October 15, 2019 |
| 1 | Fixed deposit | Long term | 250.00 | | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | MA+ (Stable) | MA+ (Stable) | MA+ (Stable) | MA+ (Negative) | MA+ (Negative) | MA+ (Negative) | MA+ (Stable) |
| 2 | Term loan | Long term | 120.62 | 120.62 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A+ (Negative) | [ICRA]A+ (Negative) | [ICRA]A+ (Negative) | [ICRA]A+ (Stable) |
| 3 | Fund based CC | Long term | 560.00 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A+ (Negative) | [ICRA]A+ (Negative) | [ICRA]A+ (Negative) | [ICRA]A+ (Stable) |
| 4 | Unallocated | Short term | 0.00 | - | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | - | - | - | - | - | - |
| 5 | Non-fund-based facilities | Short term | 300.00 | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1+ | [ICRA]A1+ |
| 6 | Commercial Paper (CP) | Short term | 0.00 | - | - | [ICRA]A2+; reaffirmed and withdrawn | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1+ | [ICRA]A1+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
| --- | --- |
| Fixed Deposits | Very Simple |
| Term Loan | Simple |
| Long term - Fund based facilities | Simple |
| Short term – Unallocated | NA |
| Short term – Non-fund based facilities | 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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| Not applicable | Fixed Deposit | - | 7.30 - 8.00% | - | 250.00 | [ICRA]A- (Stable) |
| Not applicable | Term loan - I | FY2019 | 7.95% | FY2024 | 2.50 | [ICRA]A- (Stable) |
| Not applicable | Term loan – II | FY2016 | 7.95% | FY2024 | 3.12 | |
| Not applicable | Term loan – III | FY2021 | 6.80% | FY2024 | 25.00 | |
| Not applicable | Term loan – IV | FY2019 | 8.00% | FY2025 | 42.19 | |
| Not applicable | Term loan – V | FY2020 | 6.60% | FY2026 | 21.00 | |
| Not applicable | Term loan - VI | FY2021 | 7.30% | FY2026 | 26.81 | |
| Not applicable | Cash Credit | NA | NA | NA | 560.00 | |
| Not applicable | Letter of Credit & Bank Guarantee | NA | NA | NA | 300.00 | |

*Source: Company*

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

## Annexure II: 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 |

*Source: Company*

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## ICRA Limited

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