December 18, 2023

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	286.00	133.00	[ICRA]BBB+ (Positive); Reaffirmed
Long-term Fund-based – Working Capital	134.00	140.00	[ICRA]BBB+ (Positive); Reaffirmed
Unallocated limits	50.00	197.00	[ICRA]BBB+ (Positive); Reaffirmed
Total	**470.00**	**470.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Maxion Wheels Aluminum India Private Limited (MWAIPL) reflects the ramp-up in its operations driven by its healthy share of business with key passenger vehicle (PV) original equipment manufacturers (OEMs) such as Tata Motors Limited, Honda Cars India Limited, Volkswagen India, and Hyundai Motors, among others. The company is the sole supplier of alloy wheel rims for various models of these OEMs, along with a strong order book for various upcoming models as well as higher order book from Mahindra & Mahindra Limited (where its wallet share is currently lower than other OEM clients).

The ratings continue to factor in the company's 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 and technical 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 received Rs. 415.6 crore equity infusion till date, which has been utilised to partially fund its capital expenditure (capex) and meet operational requirements. 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 for funding the company's capex requirements.

The company started operations from July 2019 with an installed production capacity of 5 lakh wheel rims per annum, gradually ramping up to 20 lakh wheel rims in the current year.

The company's revenues moderated in 10M CY2023 largely due to losing some wallet share with customers like Kia Motors and Hyundai due to the lower margins involved, along with a drop in average realisations from the softening of commodity prices. However, the same is expected to pick up, going forward, as the company gains wallet share with other OEMs like Tata Motors, Volkswagen India and Mahindra & Mahindra, wherein it is the sole supplier for particular models. Following the ramp-up in operations over the past two years, the company's operating profitability has also stabilised in the range of 10-13%, generating positive net cash accruals.

The rating remains constrained by the vulnerability of the company's profits to adverse fluctuation in aluminium ingot prices, the key raw material, and to foreign exchange rates in the absence of a specific hedging policy. Although price revisions with customers mitigates this risk to an extent. MWAIPL had undertaken a debt-funded capex starting from CY2018 and has sizeable debt repayment obligations over the near term (~Rs. 64.6 crore in CY2023 and ~Rs.49.3 crore in CY2023), which are likely to be funded partially from the internal cash flow generations, which are susceptible to cyclicality and technological changes in the PV industry.

Key rating drivers and their description

Credit strengths

Operational expertise and financial support from 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 extensive experience, specifically in the wheel manufacturing space. 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 extended by the parent in the form of equity (Rs. 415.6 crore till date) towards partially funding its capex requirements and meeting its operational expenses, with the likelihood of further support in case of any exigencies. While the parent entity had recorded a revenue of Brazilian dollar 11.47 billion, EBITDA margins had reduced to 4.9% in the nine months ending 2023, from 6.5% in CY2022 due to the slowdown in European markets. The total debt levels at the parent entity continued to remain elevated; and with operating profitability declining, the debt coverage ratios were negatively impacted (Total Debt/OPBITDA of 9.3x over 6.1x in the year ago period).

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 Limited, Fiat India Automotive Private Limited, Mercedes Benz, Tata Motors Limited and Jaguar Land Rover. Coupled with its strong parentage, and the established global relationships between Maxion Group and these global OEMs, this augurs well for MWAIPL's business prospects.

Healthy share of business with multiple OEMs aiding business prospects – The company has garnered healthy wallet share with Tata Motors Limited, Volkswagen India and Hyundai Motors India for the supply of PV alloy wheels, and has made inroads into the supply of alloy wheels to Mahindra & Mahindra Limited as well. Moreover, the company has been able to secure orders for supplies for various upcoming models of these OEMs. The healthy wallet share with these OEMs, along with the improving penetration of alloy wheels in the domestic PV market, and the favourable industry outlook for PVs are expected to together augur well for the company's growth prospects.

Ramp up in operations and improvement in operating margins in past two years – The company's ramp up in volumes has been healthy, with volumes of 1.18 million from OEM sales in CY2022, reflecting a YoY growth of 41%. Further, operating profitability also improved to 12.8% in CY2022 against 5.6% in CY2021 due to operating leverage. Although volumes were largely flattish in YTD CY2023 due to the company losing some market share with Kia Motors, ICRA expects the operating margins to be 10-11%. Going forward, volumes are expected to remain healthy with the strong order book that the company has for upcoming models of various other OEMs.

Credit challenges

Limited track record of profitable operations – The commercial production at MWAIPL's manufacturing plant in Khed taluka started from July 2019 with an annual production capacity of 5 lakh aluminium wheel rims, which gradually increased to 20 lakh per annum in CY2023. With the operations ramping up gradually, the company generated cash losses till CY2021, before generating cash profits in CY2022 and YTD CY2023. Nevertheless, the company's ability to operate on higher capacities in a sustained period remains to be seen.

Profit margins vulnerable to fluctuations in aluminium ingot prices and exchange rates amid intense industry competition – The company is susceptible to volatility in prices of its key raw material, aluminium ingot; although the same is passed on to its end-customers with a time lag. MWAIPL also remains exposed to forex rate fluctuations as its aluminium ingot requirement is met through imports, while its sales are restricted to the domestic market. At present, it does not have any forex hedging policy, although it is able to pass on the fluctuations to some extent. Nevertheless, with stiff competition faced from other established wheel rim suppliers in the Indian market, the pricing flexibility also remains largely limited.

Sizeable debt repayment obligations over near to medium 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. 64.6 crore in CY2023 (Rs. 49.3 crore in CY2024). Although this would be partially met through the company's cash flows, comfort is drawn from the healthy anticipated cash accruals of ~Rs.40-50 crore annually, buffer available from its undrawn working capital lines and track record of funding support from the parent company**.**

Exposure to cyclicality and technological changes in PV industry – The company's entire sale of aluminium wheel rims is supplied to the domestic industry, thereby exposing it to the cyclical trends in the PV industry.

Liquidity position: Adequate

MWAIPL's liquidity is likely to remain adequate, supported by its improving cash flow generation as operations continue to ramp up and profitability improves. The company had free cash and equivalents of Rs. 0.3 crore, as on November 30, 2023, and a Rs. 12 crore buffer in working capital lines as on the same date, which further lends support to its liquidity position. Against these sources of liquidity, the company has repayment obligations of Rs. 49.3 crore and planned capex outlay of Rs. 10-12 crore in CY2024. Even as the company is expected to largely fund these requirements from its existing sources of liquidity, ICRA continues to draw comfort from the likely financial support from the parent towards funding deficits, in case of any exigencies.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company continues to report healthy capacity utilisation at its plant, aiding in improvement in its profitability on a sustained basis, while maintaining a comfortable liquidity position. Improvement in the credit profile of the parent entity (Iochpe Maxion S.A.) would also be a positive rating trigger.

Negative factors – Negative pressure on the ratings could arise in case of any sustained weakening in MWAIPL's performance and deterioration in liquidity or coverage metrics. Downward pressure could also arise from weakening of credit profile 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 –Auto Component
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 is also a track record of the parent having extended financial support to MWAIPL in the form of equity.
Consolidation/Standalone	The ratings are based on the standalone financial statement of MWAIPL.

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). Commercial production under Phase 1 of the project commenced from July 2019 (against the scheduled timeline of September 2019) with a production capacity of 0.5 million wheel rims per year, gradually ramping up to 2 million wheel rims per year. The company currently caters to OEMs such as Kia Motors, Hyundai Motors, Tata Motors, Volkswagen and Honda for their aluminium alloy wheel requirements.

Key financial indicators (audited)

Standalone	CY2021	CY2022
Operating income	365.0	573.5
PAT	-37.4	9.9
OPBDIT/OI	5.6%	12.8%
PAT/OI	-10.3%	1.7%
Total outside liabilities/Tangible net worth (times)	1.5	1.4
Total debt/OPBDIT (times)	9.6	2.9
Interest coverage (times)	0.7	3.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of December 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 18, 2023	Jan 25, 2023	Dec 24, 2021	Sep 21, 2020
1	**Term loans**	Long term	133.00	133.00	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Fund-based – Working Capital**	Long term	140.00	23.80	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	**Unallocated Limits**	Long term	197.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based -Working Capital	Simple
Unallocated limits	Not applicable

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Term Loan	Aug 13, 2018	NA	FY2025	133.00	[ICRA]BBB+ (Positive)
NA	Fund-based - Working Capital	NA	NA	NA	140.00	[ICRA]BBB+ (Positive)
NA	Unallocated limits	NA	NA	NA	197.00	[ICRA]BBB+ (Positive)

Source: Company

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

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sahil Udani
+91 22 6114 3465
sahil.udani@icraindia.com

Karan Punjabi
+91 22 6114 3451
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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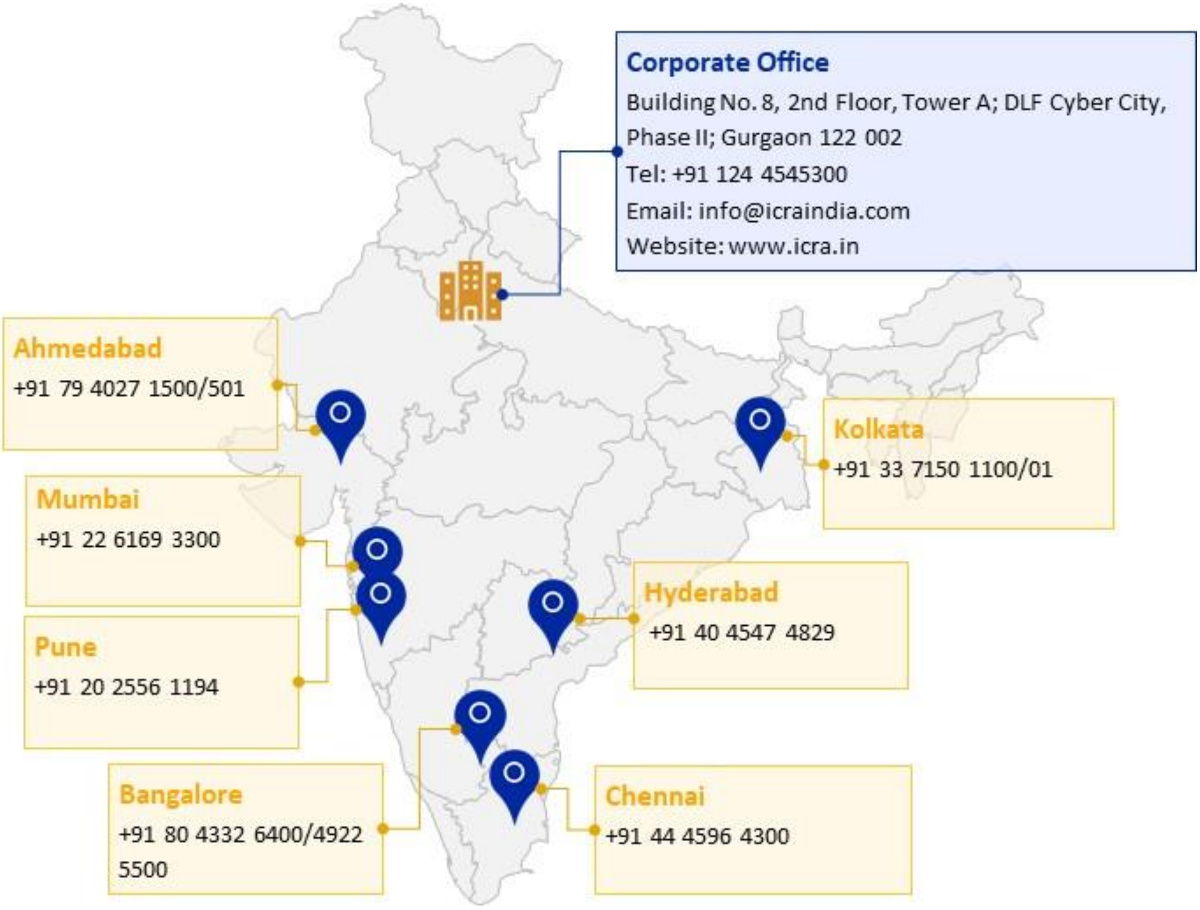

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