March 28, 2024

Wheels India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fixed Deposits	250.00	250.00	[ICRA]A- (Stable); reaffirmed
Long Term – Fund Based – Term Loans	120.62	56.58	[ICRA]A- (Stable); reaffirmed
Long Term – Fund Based – Cash Credit	560.00	560.00	[ICRA]A- (Stable); reaffirmed
Long Term – Unallocated	-	33.42	[ICRA]A- (Stable); reaffirmed
Short Term – Non-Fund Based	300.00	300.00	[ICRA]A2+; reaffirmed
Total	**1,230.62**	**1,200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation on various debt instruments of Wheels India Limited (WIL) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by WIL's exceptional financial flexibility arising from its parentage, its established business position as one of the largest steel wheel rim manufacturers in India, and its diversified presence across segments, customers and products. The company belongs to the T S Santhanam faction (TSF) of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry. The T S Santhanam group holds 57.31% stake in the company through Trichur Sundaram Santhanam & Family Private Limited (29.86%, rated [ICRA]AA (Stable) / [ICRA]A1+), Sundaram Finance Holdings Limited (23.96%) and India Motor Parts and Accessories Limited (IMPAL) (4.50%, 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) / accruals. The company's consolidated debt remains high and stood at Rs. 1,372.2 crore[1] as on December 31, 2023, because of debt-funding of capex over the last few years, high working capital intensity and cash losses in WIL Car Wheels Limited (WCWL). However, it has remained range bound in the last 12-18 months supported by reduction in working capital intensity in FY2023 and 9M FY2024. The high debt levels, along with moderate operating profit margins has resulted in moderate coverage metrics. The company's consolidated interest coverage stood at 1.9 times for 9M FY2024, while its NCA / Total debt was low at 6.3% for the same period.

While near-term volumes could be impacted by the global macro-economic slowdown, the long-term revenue growth is expected to be healthy, supported by steady pickup in volumes across end-user industries, and incremental orders from both new and existing customers across automotive and non-automotive segments. Margins and accruals are expected to improve gradually from the current levels going forward, aided by favourable product mix and pricing, operating leverage benefits, prudent working capital management and cost optimisation measures among others. However, the extent of improvement remains to be seen, given its vulnerability to raw materials and other input costs. 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 ~Rs. 150.0 crore per year in FY2025 and FY2026 (to be funded through mix of internal accruals and debt), and WIL's relatively high working capital requirements. Reduction in debt levels and consequent improvement in coverage metrics would be critical for improvement in credit profile.

[1] *Total debt of Rs. 1,372.2 crore as on December 31, 2023, includes lease liabilities of Rs. 19.3 crore and vendor bills discounted to the tune of Rs. 428.8 crore.*

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its parentage, diversified segment mix, established business position and its long standing relationship with auto component manufacturers, and adequate liquidity.

Key rating drivers and their description

Credit strengths

Financial flexibility by being part of the T S Santhanam Group (TSF) – 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). TSF group holds 57.31% stake in the company through Trichur Sundaram Santhanam & Family Private Limited (29.86%, rated [ICRA]AA (Stable)/[ICRA]A1+), Sundaram Finance Holdings Limited (23.96%) and IMPAL (4.50%, 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 income of Rs. 3,708.1 crore in 9M FY2024 (Rs. 4,669.7 crore in 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 earthmover 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 35% in M&HCV, 84% in LCV, 51% in tractors and ~34% in passenger cars steel rims at the consolidated level. Further, the company is among the larger manufacturers of air suspension products used in both buses and trucks and has healthy market share with domestic OEMs in the business.

Diversified segment and customer base; non-wheel rim business constitutes around 25% of revenues – The company derives 76% of its consolidated revenues from India, while the remaining is from overseas markets. In terms of product segments, wheels constitute over 75% of the revenues, while non-wheel business segment such as fabrications, windmill components, air suspension, bogie frames and hydraulic cylinders among other constitute the remaining. Segment-wise, the company has fairly diversified revenues across tractors (16% in H1 FY2024), earthmover wheels (16%), passenger vehicles (15%), commercial vehicles (14%) and air suspension (9%). Within the domestic wheel rims, the company has a diversified customer base spread across 30 OEMs. Caterpillar India Private Limited, Tata Motors Limited (TML), Ashok Leyland Limited (ALL), Mahindra and Mahindra Limited (M&M), and Maruti Suzuki India Limited (MSIL) were the top five customers in India, while Vestas Wind Systems A/S, Caterpillar Inc., John Deere were the top customers in the export segment. The diversification mitigates risks arising from revenue decline from any single customer/segment to an extent.

Credit challenges

High debt levels and moderate coverage metrics – The company's consolidated debt level remains high and stood at Rs. 1,372.2 crore[2] as on Dec 31, 2023, because of debt-funded capex undertaken in the last few years, high working capital intensity and cash losses in WCWL. However, it has remained range bound in the last 12-18 months supported by reduction in working capital intensity in FY2023 and 9M FY2024. The high debt levels, along with moderate operating profit margins has resulted in moderate coverage metrics. The company's consolidated interest coverage stood at 1.9 times for 9M FY2024, while its NCA/Total debt stood at 6.3% for the same period. Significant reduction in debt levels and consequent improvement in coverage metrics would be critical for improvement in credit profile going forward.

Moderate operating profit margins and accruals – WIL has moderate operating profit margins (OPM) given its limited bargaining power, competitive pressures, and relatively moderate value addition. The OPM remained moderate at 4.6% in 9M FY2024 (vis-à-vis 4.5% in 9M FY2023), and was lower than ICRA's earlier expectations, on account of one-time cost apart from

[2] Total debt of Rs. 1,372.2 crore as on December 31, 2023, includes lease liabilities of Rs. 19.3 crore and vendor bills discounted to the tune of Rs. 428.8 crore.

higher employee cost and lag in the pass through of cost inflation and this, in turn, has moderated accruals as well. WIL's peak historical operating margins were significantly higher than current levels and stood at over 7.0% during FY2017-FY2019. Margins and accruals are expected to improve gradually from the current levels going forward, aided by favourable product mix and pricing, operating leverage benefits, prudent working capital management and cost optimisation measures among others. However, the extent of improvement remains to be seen, given its vulnerability to raw materials and other input costs.

Revenues exposed to demand dynamics in overseas markets – WIL derived ~25% of its revenues from the export markets in 9M FY2024 (US accounted for ~10% of exports), exposing it to any demand slowdown in overseas markets. The company predominantly supplies to earthmover, passenger vehicles and tractors in exports. The weak outlook for auto component exports in FY2025 could result in some moderation in revenues for WIL. Nevertheless, the company's established relationship with its customers, healthy order book, new customer addition, and increase in share of business with existing customers as part of vendor diversification initiatives by global original equipment manufacturers (OEMs) mitigate the revenue risk to an extent and are likely to support healthy medium-term revenue prospects.

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 supported by its anticipated cash accruals and undrawn working capital lines of around Rs. 150.0 crore as on December 31, 2023. The company had minimal cash balance as on December 31, 2023. In relation to these sources of cash, WIL has a consolidated capex commitment of ~Rs. 150.0 crore each in FY2025 and FY2026. The capex is likely to be funded through a combination of internal accruals and debt. Further, the company has consolidated repayments of Rs. 43.8 crore in FY2025 and Rs. 24.8 crore in FY2026 on its existing term loans.

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 Rating Methodology for Auto Component
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 earthmover 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 ~75% of its consolidated revenues from the domestic market and its manufacturing facilities 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 TSF Group, which holds 58.31% stake through Trichur Sundaram Santhanam & Family Private Limited (29.86%, rated [ICRA]AA (stable)/A1+), Sundaram Finance Holdings Limited (23.96%) and IMPAL (4.50%, rated [ICRA]AA (Stable)/[ICRA]A1+) as on December 31, 2023. 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. Sundaram Hydraulics Limited, a group company, was amalgamated with WIL in FY2024.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	3,977.0	4,669.7
PAT	71.0	49.1
OPBDIT/OI	6.7%	5.1%
PAT/OI	1.8%	1.1%
Total outside liabilities/Tangible net worth (times)	3.0	2.9
Total debt/OPBDIT (times)	5.2	5.4
Interest coverage (times)	3.7	2.3

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

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022			Date & rating in FY2021			
					Mar 28, 2024	Mar 20, 2023	Jan 27, 2023	Jun 13, 2022	Jan 31, 2022	Dec 15, 2021	Apr 05, 2021	Jul 08, 2020	Jun 12, 2020	Apr 30, 2020	
1	**Fixed deposit**	Long term	250.00	235.37	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Negative)	MA+ (Negative)	MA+ (Negative)	
2	**Term loans**	Long term	56.58	56.58	[ICRA]A- (Stable)	[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)	
3	**Fund based Cash credit**	Long term	560.00	-	[ICRA]A- (Stable)	[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)	
4	**Unallocated**	Long term	33.42	-	[ICRA]A- (Stable)	-	-	-	-	-	-	-	-	-	
5	**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]A2+	[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+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposits	Very Simple
Term Loans	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit	-	7.50-8.30%	-	250.00	[ICRA]A-(Stable)
NA	Term loans	FY2019-FY2021	6.60-9.10%	FY2025-FY2026	56.58	[ICRA]A-(Stable)
NA	Cash Credit	NA	NA	NA	560.00	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	33.42	[ICRA]A-(Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	300.00	[ICRA]A2+

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K Srikumar
+91 44 4596 4318
k.srikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Kishore Kumar A
+91 44 4596 4312
kishore.a@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

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.

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ICRA Limited

Registered Office

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

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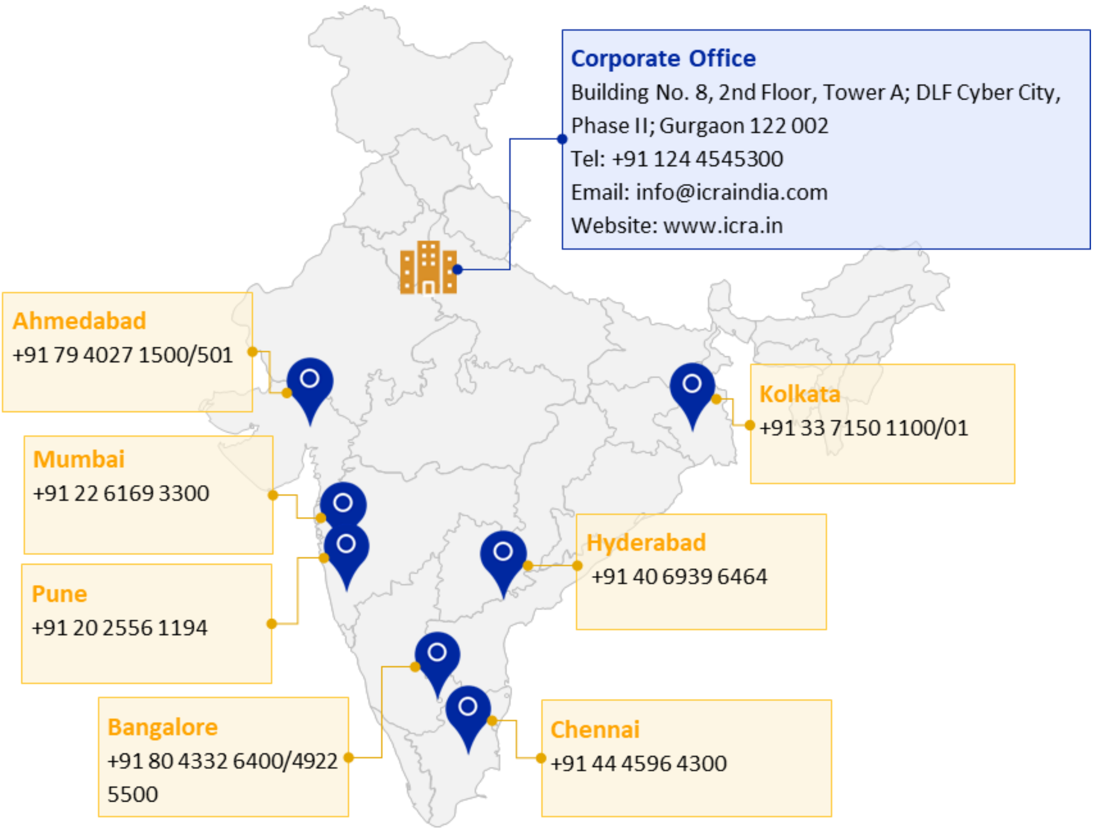

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