

May 04, 2020

WIL Car Wheels Limited: Ratings reaffirmed; outlook on the long-term rating revised to negative from stable

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	55.00	65.00	[ICRA]A- (Negative); rating reaffirmed, and outlook revised to negative from stable
Long term – Unallocated	10.00	-	[ICRA]A1; reaffirmed
Short term – Fund based facilities	45.00	45.00	
Total	110.00	110.00	

*Instrument details are provided in Annexure-1

Rationale

The negative outlook on the long-term rating follows the impact of Covid-19 outbreak on the Indian auto component industry and is in line with ICRA's negative outlook for the sector and revision in outlook on the long-term and medium-term rating of WIL Car Wheels Limited's (WCWL) parent, Wheels India Limited (WIL) to negative from stable.

The automotive supply chain disruption – largely limited to China during January and February 2020, morphed into a demand shock owing to the deterioration in the economic environment. An unprecedented large-scale global lockdown of all non-essential services has led to production disruptions at original equipment manufacturers (OEMs) and down the supply chain in March 2020 and Q1 FY2021. Further, automotive demand, both for the commercial (commercial vehicles) and the consumer segments (passenger vehicles, two-wheelers), has contracted sharply because of weakening liquidity and poor consumer sentiments.

The capital-intensive automotive industry operates at moderate operating leverage, with some scope to prune costs. Nevertheless, a sharp contraction in demand, as witnessed currently, will impact operating leverage. Further, to conserve immediate-term liquidity a few OEMs are stretching their payment cycles to vendors, discontinuing long-established systems of short credit periods. This sudden stretch in receivables will disrupt the working capital cycle of ancillaries. In a vicious cycle, the pressure on Tier 1 working capital cycles will aggravate for weaker entities down the supply chain. For exporters, slowing global demand could also lead to inventory build-up and stretched receivables in the coming quarters.

While the strength of the eventual recovery will be contingent on the duration and breadth of the Covid-19 pandemic before an eventual containment, a relatively prolonged period of curtailed automotive demand, as the consumer stays wary of large capital commitments is likely. While ICRA expects local demand dynamics in India to play out differently across sectors, most automotive sectors (barring tractors and light commercial vehicles) are expected to post double digit declines during FY2021. However, considering the highly uncertain nature of the pandemic, these estimates will be reviewed further in coming months.

The ratings positively factor in WCWL's strong parentage with 74% stake held by WIL (rated [ICRA]A+(Negative)/MA+(Negative)/[ICRA]A1+) an established steel wheel rim manufacturer in India belonging to the larger TVS Group of Companies – a reputed name in the domestic auto ancillary industry, and the T S Santhanam arm

within that. The remaining 26% stake is held by Topy Industries Limited, Japan (Topy). WCWL receives operational and technological support from both its partners, while financial support is predominantly from WIL on the working capital front. ICRA expects WIL to financially support WCWL, if required going forward. WCWL's Board is chaired by Mr. Srivats Ram, WIL's Managing Director, fourth generation TVS family member and past president of The Automotive Component Manufacturers Association of India (ACMA). The company's executive management team comprises of professionals with a few decades experience in the wheel rim industry. The ratings also draw comfort from WCWL's strong customer relationships with several passenger vehicle (PV) original equipment manufacturers (OEMs) including Maruti Suzuki India Limited (MSIL) and Hyundai Motors India Limited (HMIL) to name a few, its healthy market share and locational advantage of manufacturing facilities.

However, the ratings are constrained by the company's weak performance and relatively high borrowings for its scale of operations at Rs.96.8 crore as on Dec 31, 2019. WCWL was expected to scale its revenues significantly in FY2020, capitalizing on Topy's technology expertise and overseas customer base. With operating leverage and focussed efforts on PV steel rims, WCWL was expected to net breakeven in FY2020. As against this, WCWL reported net losses of 1.8% for 9M FY2020 (PY: 0.9% for 9M FY2019) and is expected to report losses for full year FY2020 as well, impacted by underutilization of capacities. The lower accruals and higher than anticipated debt level have weakened the company's coverage metrics in 9M FY2020. The company's net debt/OPBDITA stood at 17.8x as on Dec 31, 2019 (7.8x as on Mar 31, 2019) while its interest coverage was 1.0x for 9M FY2020 (PY: 2.3x). Leveraging on Topy's R&D and marketing capabilities sufficiently, scaling up revenues and achieving net breakeven in FY2021 would be critical. Also, in the absence of incremental debt and improvement in accruals, significant improvement in coverage metrics in FY2021 will be imperative.

Key rating drivers and their description

Credit strengths

Strong parentage and technological support from strategic partners, WIL and Topy Industries Limited, Japan – WCWL is a 74% subsidiary of WIL (rated [ICRA]A+(Negative)/MA+(Negative)/[ICRA]A1+) and is part of the T S Santhanam arm of the TVS Group. The remaining 26% stake is held by Topy Industries Limited, Japan (Topy). The company benefits from its strong parentage with operational and technological support from both its stakeholders. WIL is among the largest steel wheel rim manufacturers in India in the automotive segment and among the largest steel wheel rim manufacturers globally for earth movers. On the other hand, Topy is also a leading manufacturer of steel wheels globally. Currently, WCWL receives working capital support from WIL. Going forward, ICRA expects WIL to financially support WCWL, if required.

Strong management team – WCWL has a strong management team chaired by Mr. Srivats Ram (Managing Director, WIL), a fourth generation TVS family member with over 30 years of experience in the auto and auto component Industry. The company has one representation from Topy and has appointed three additional independent directors. WCWL has a professional management team and comprises of wheel rim industry veterans.

Strong customer relationships and healthy market share; WCWL also has locational advantage with its manufacturing facilities being in proximity to the OEM plants – WCWL's clients comprise of reputed PV OEMs like MSIL, HMIL, Renault Nissan Automotive India Private Limited, Toyota Kirloskar Motor Private Limited and Ford India Private Limited. ~50% of the revenues in 9M FY2020 was derived from MSIL. The company has 49% market share in the passenger vehicle steel

wheel rim market. However, it is not present in the fast-growing alloy wheel rim segment for passenger cars; alloy wheels now account for approximately 27% of the PV rim requirements in India. In terms of capacities, WCWL has three manufacturing plants in Bawal (Haryana), Padi (TN) and Vanod (Gujarat). While the former is closer to MSIL's plant, the Padi facility is closer to plants of HMIL and Renault Nissan Automotive India Pvt Limited, providing freight/logistics cost advantages.

Credit challenges

Muted demand environment and potential revenue pressure in FY2021 due to Covid-19 – The company predominantly derives its revenues from the domestic PV industry. As a result of the demand slowdown, WCWL reported a revenue decline of 12.3% YoY in 9M FY2020. Going forward, the ongoing lockdown, weakening liquidity and poor consumer sentiments are expected to significantly impact revenues for the company in FY2021. ICRA also has a negative outlook on the domestic PV and auto component industry.

Relatively high debt levels; weakening of coverage metrics in 9M FY2020 – The company's debt levels were relatively high for its scale of operations at Rs. 96.8 crore as on Dec 31, 2019¹, contributed by debt-funded capex and discounting of purchase/sales bills to meet its working capital requirements. The relatively high debt levels and weaker operating leverage in 9M FY2020 (because of the demand slowdown) have resulted in deterioration in coverage metrics for the company. WCWL's net debt/OPBDITA stood at 17.8x as on Dec 31, 2019 (7.8x as on Mar 31, 2019) while its interest coverage was 1.0x for 9M FY2020 (PY: 2.3x). Significant improvement in coverage metrics in FY2021 would be imperative.

Weak performance in FY2020; ability to scale up revenues and improve accruals critical – WCWL's operating margin stood at a relatively thin 1.6% for 9M FY2020 (PY:2.4%) given its limited bargaining power sandwiched between OEMs and large suppliers, competitive pressures and underutilization of capacities. The weaker absorption of fixed costs and consequently low operating margins cascaded into net losses for the company in 9M FY2020. WCWL reported a net loss of 1.8% for 9M FY2020, weaker than ICRA's earlier estimates. WCWL's margins are likely to be impacted in Q4 FY2020 and Q1 FY2021 as well, because of the lockdown and associated loss of sales/weaker absorption of fixed costs. The negative operating leverage will continue to impact margins in FY2021, although the company's cost-saving initiatives on multiple fronts will support margins to an extent. WCWL's ability to put the passenger car steel wheel rims business on a focused growth path, scale up its revenues by harnessing the technology skills and global relationships of Topy and breakeven at the net level would be critical from the credit perspective.

Liquidity Position: Adequate

WCWL's liquidity is adequate with positive fund flow from operations in FY2019; cash and bank balances and liquid investments of Rs. 5.5 crore as on December 31, 2019; and undrawn lines of more than Rs. 15 crore as on date. Its average working capital utilisation was ~71.7% of sanctioned limits and ~90.9% of Board-approved limit as on month ends for the 12-month period ended March 2020. WCWL has a Board-capped working capital limit of Rs. 45 crore, which can be modified at short notice to enable the company to borrow more if required. In relation to these sources of cash, WCWL has a total capex commitment of ~Rs. 3.5 crore for FY2021 and FY2022 (to be funded through internal accruals), and term loan repayments of Rs. 13.8 crore and Rs. 16.4 crore respectively in FY2021 and FY2022. ICRA expects WCWL to

¹ Includes purchase bills discounted and sales bills discounted with recourse

be able to meet its medium-term commitments through internal sources of cash and debt, and financial support from WIL if required. Also, WCWL enjoys strong financial flexibility and lender/investor comfort by virtue of it being WIL's subsidiary, and this is expected to continue going forward as well.

Rating sensitivities

Positive triggers – An upgrade is unlikely in the near term, given the negative outlook on the auto component and domestic passenger vehicle industry owing to the expectation of severe impact of the Covid-19 outbreak on the business. Nonetheless, sustained improvement in its credit profile through improvement in profit margins and leverage metrics, could lead to an upgrade over the medium term.

Negative triggers – Negative pressure on WCWL's rating could arise from prolonged impact of Covid-19 leading to weak performance and deterioration in liquidity or leverage metrics; or weakening in the parent's (WIL) credit profile or WCWL's operational/financial linkages with the parent, WIL.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group Support	Wheels India Limited (WIL, rated [ICRA]A+ (Negative)/MA+ (Negative)/[ICRA]A1+) holds 74.0% stake in the company.
Consolidated/Standalone	Standalone

About the company:

WIL Car Wheels India Limited (WCWL) manufactures of passenger car steel wheel rims, predominantly for the domestic market. Its manufacturing facilities are located at Padi (TN)², Vanod (Gujarat) and Bawal (Haryana) and the company supplies to players like Maruti Suzuki India Limited, Hyundai Motors India Limited, Renault Nissan Automotive India Private Limited and Toyota Kirloskar Motor Private Limited to name a few. WCWL is part of the larger TVS Group (T S Santhanam arm), with 74.0% stake held by the Wheels India Limited (rated [ICRA]A+ (Negative)/MA+ (Negative)/[ICRA]A1+). Topy Industries Limited, Japan, a global automobile and industrial machinery parts manufacturer, holds the remaining stake in the company. WCWL is chaired by Mr. Srivats Ram, a fourth generation TVS family member and Managing Director of WIL.

Key financial indicators (audited)

Standalone	7M FY2018	FY2019
Operating Income (Rs. crore)	179.1	364.8
PAT (Rs. crore)	1.6	-1.3
OPBDIT/ OI (%)	3.2%	2.8%
RoCE (%)	-	1.8%
Total Outside Liabilities/ TNW (times)	0.9	1.5
Total Debt/ OPBDIT (times)	1.8	8.0
Interest coverage (times)	18.3	2.6

² Contract manufacturing by WIL in this facility

Debt Service Coverage Ratio (times) - 2.7

Source: Company's Annual Report, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 04, 2020	Date & Rating in FY2019 Mar 22, 2019	Date & Rating in FY2018 Jan 22, 2018	Date & Rating in FY2017	
1	Unallocated	Long Term	-	-	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Term Loan	Long Term	65.00	60.50	[ICRA]A-(Negative)	[ICRA]A-(Stable)	-	-
3	Fund based facilities	Short Term	45.00	-	[ICRA]A1	[ICRA]A1	-	-
4	Unallocated	Short Term	-	-	-	-	[ICRA]A1	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019	8.9%	FY2024	65.00	[ICRA]A- (Negative)
NA	Short term fund based facilities – Vendor bills discounting	NA			45.00	[ICRA]A1

Source: WIL Car Wheels Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable		

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