

January 25, 2023

Maxion Wheels Aluminum India Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term – Fund-based – Term Loan	206.00	286.00	[ICRA]BBB+; reaffirmed; Outlook revised to Positive from Stable
Long-term – Fund-based – Working Capital	134.00	134.00	[ICRA]BBB+; reaffirmed; Outlook revised to Positive from Stable
Long-term – Unallocated Limits	-	50.00	[ICRA]BBB+(Positive); assigned
Total	340.00	470.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Positive on Maxion Wheels Aluminum India Private Limited's (MWA IPL's) long-term rating reflects ICRA's expectation that the company would sustain the improvement in its operating performance demonstrated over the recent past, with capacity utilisation ramping up to ~80% in CY2022, which has aided healthy growth in revenues and improvement in its profitability. MWA IPL has been able to secure healthy share of business from key passenger vehicle (PV) original equipment manufacturers (OEMs) such as Kia Motors, Hyundai Motors India Limited, Tata Motors Limited, Honda Cars India Limited and Volkswagen India, which coupled with the overall uptick in the domestic PV industry, has helped it report a 40-45% increase in volume sales, and a 50% increase in revenues, to close CY2022 with revenues of Rs. 546.8 crore (as per provisional financials). Furthermore, as the operations ramped up, the company turned OPBITDA positive in CY2021 with operating profit margin (OPM) of 5.6%, which further improved to 6.3% in CY2022. Given the healthy order book in hand from multiple OEMs, ICRA expects the ramp-up to continue at a steady pace over the near to medium term.

The ratings continue to factor in the company's strong parentage as a wholly-owned subsidiary of lochpe-Maxion Austria GmbH, with the ultimate holding company being lochpe-Maxion S. A., Brazil. MWA IPL benefits from the lochpe-Maxion Group's operational 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. MWA IPL has so far received Rs. 415.6 crore equity infusion till date, of which Rs. 181 crore was received in CY2021, and this has been utilised towards partially funding the capital expenditure (capex) and to meet operational requirements. ICRA expects lochpe-Maxion to continue to extend timely financial support to MWA IPL, should there be a need, given the operational linkages between them. This is in addition to the equity infusion required 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 and gradually ramped up to 15 lakh wheel rims in the current year. Although there have been slight cost overruns in the project primarily due to forex fluctuations, the same has been funded through incremental equity infusion from the parent. Overall, the project execution remains on track, for expanding its capacity to 20 lakh wheels per annum, which would be completed by December 2023.

The ratings remain 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. ICRA also notes that the company has sizeable debt repayment obligations over the near term, which are likely to be funded partially from the internal cash flow generations. Nonetheless, the steady ramp up in operations, expected further improvement in profitability, and buffer available from unutilised lines of credit lends support. Furthermore, the history of financial support from the parent entity provides comfort. ICRA also notes the susceptibility of MWA IPL's revenues to cyclical and technological changes in the PV industry.

Key rating drivers and their description

Credit strengths

Operational expertise and financial support from parent, lochpe-Maxion Group – MWAIPL is a wholly-owned subsidiary of lochpe-Maxion Austria GmbH, with the ultimate holding company being lochpe-Maxion S. A., Brazil. The lochpe-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. 416 crore till date) towards partially funding its capex requirements and meeting its operational expenses.

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 Kia Motors, Hyundai Motors India Limited, Tata Motors Limited, Honda Cars India Limited and Volkswagen 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 their upcoming models. 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.

Credit challenges

Limited track record of profitable operations – The commercial production at MWAIPL's manufacturing plant in Khed taluka, Pune (Maharashtra) started from July 2019 with an annual production capacity of 5 lakh aluminium wheel rims, which gradually increased to 15 lakh per annum in CY2022. With the operations ramping up gradually, the company generated operating losses over CY2019 and CY2020, before generating operating profits in CY2021. The profitability improved in CY2022, with the company estimated to have generated cash profits of Rs. 8-10 crore. Nevertheless, the company's ability to sustain and improve the same 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 the aluminium ingot requirement is met through imports, while its entire sales is 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 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. Although this would be partially met through the company's cash flows, comfort is drawn from the buffer available from its undrawn working capital lines and track record of funding support from the parent company.

Exposure to cyclical and technological changes in PV industry – The company's entire sale of aluminium wheel rims is supplied to the domestic PV industry, thereby exposing it to the cyclical trends in the end-user 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. 4.1 crore as on December 31, 2022 and Rs. 74.8 crore buffer in working capital lines as on October 31, 2022, which further lends support to its liquidity position. Against these sources of liquidity, the company has repayment obligations of Rs. 64.6 crore and capex outlay of Rs. 23 crore planned in CY2023. Even as the company is expected to largely fund these requirements from its existing sources of liquidity, ICRA continues to draw comfort from the expected financial support from the parent entity 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 utilization at its plant, which aids 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.

Negative factors – Negative pressure on the ratings could arise in case of any sustained weakening in 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 for Auto Component Suppliers Impact of Parent or Group Support on an Issuers Credit Ratings
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 also exists a track record of the parent company 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). The commercial production commenced from July 4, 2019, with a manufacturing capacity of 5 lakh wheel rims per annum, which has gradually ramped up to 15 lakh in CY2022. The annual production capacity is proposed to be further ramped up to 20 lakh wheel rims by December 2023.

Key financial indicators (audited)

Standalone	CY2020	CY2021
Operating income	166.2	365.0
PAT	-95.6	-37.4
OPBDIT/OI	-20.7%	5.6%
PAT/OI	-57.5%	-10.3%
Total outside liabilities/Tangible net worth (times)	4.5	1.5
Total debt/OPBDIT (times)	-8.7	9.6
Interest coverage (times)	-1.2	0.7

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Jan 25, 2023	Dec 24, 2021	Sep 21, 2020	Aug 30, 2019	
1 Term Loan	Long term	286.00	189.4	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Fund-based – Working Capital	Long term	134.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3 Unallocated Limits	Long term	50.00	-	[ICRA]BBB+ (Positive)	-	-	-	

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loan	Simple
Long Term – Fund Based – Working Capital	Simple
Long Term – Unallocated Limits	NA

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	Term Loan	Aug 13, 2018	NA	CY2025	286.00	[ICRA]BBB+ (Positive)
NA	Fund-based – Working Capital	NA	NA	NA	134.00	[ICRA]BBB+ (Positive)
NA	Unallocated Limits	NA	NA	NA	50.00	[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

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