Wheels India Limited

March 22, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Medium Term: Fixed deposit	150.0	150.0	MA+(Stable); reaffirmed
Long term: Term loan	85.00	160.00	[ICRA]A+ (Stable); reaffirmed
Long term - Fund based facilities	225.00	260.00	[ICRA]A+ (Stable); reaffirmed
Short term -Non-fund-based facilities	150.00	150.00	[ICRA]A1+; reaffirmed
LT/ST: Unallocated	65.00	30.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	**775.00**	**850.00**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings favorably factors in WIL's leading market position in the domestic wheel rim industry with high share of business with several leading auto majors across various segments, its diversified customer profile, its established presence in the global earthmoving (EM) wheel rim industry and its well diversified product mix. The ratings also consider the financial flexibility enjoyed by WIL as part of the TVS Group.

During 9MFY2019, WIL's revenue increased 32% YoY to Rs. 2,328.1 crores (9M FY2018 – Rs. 1,760.6 crores) supported by robust growth across all segments of Original Equipment manufacturers (OEM) and a low base due to the goods and service tax (GST) hit in 9MFY2018. However, operating margins dipped to 7.4%, owing to increase in employee cost and increase in cost of raw materials. That said, WIL's overall profitability (Return on Capital Employed) improved from 12% in FY2014 to 13.7% in FY2018 supported by asset sweating. Going forward given the highly capital-intensive nature of business (OI/Gross block of 200%), which necessitates regular investment in fixed as well as working capital assets, the ROCE is expected to improve moderately with higher asset sweating.

The ratings remain constrained by the susceptibility of revenues to cyclicality and technology trends in automobile industry especially in the passenger vehicle segment, where auto majors are moving towards alloy wheels as against steel rims manufactured by WIL. In this context, entry into counter-cyclical segments like the recent foray into the railway components business and the already existing power segment aids to de-risk revenue concentration and mitigate the cyclicality.

The rating also considers the vulnerability of earnings to fluctuations in foreign exchange in the absence of complete hedging of its receivables; WIL follows a hedging using forward contracts of only a portion of its exposure (unhedged exposure as at March 31, 2018 is Rs. 55.81 crores). WIL's need to continually invest in capital assets (partly being debt funded), results in a moderate capital structure. Going forward, WIL's ability to sustain revenue growth and improve profitability while improving its capital structure will remains key rating monitorables.

Outlook: Stable

ICRA believes WIL will continue to benefit from being the largest steel wheel rim manufacturer in India with a dominant market share and diverse customer base. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability is achieved while improving its capital structure. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, results in weaker financial profile.

Key rating drivers

Credit strengths

Largest wheel rim manufacturer in the country and one of the largest Earth Mover (EM) rim manufacturers globally- WIL is the largest manufacturer of wheel rims in India, catering to the Heavy Commercial Vehicle (HCVs), Light Commercial Vehicles (LCVs), passenger cars, tractor segment, agricultural applications, off-road construction vehicles and has established presence in the global earthmoving (EM) wheel rim industry. Revenues grew by 32% in 9M FY2019, supported by robust growth across all segments of Original Equipment manufacturers (OEM) and a low base due to the goods and service tax (GST) hit in 9MFY2018.

Dominant market position in wheel rims and high share of business with most OEM's lends business stability- WIL enjoys a leading market position in the domestic wheel rim industry with high share of business with several leading original equipment manufacturers (OEM's) across various segments. The company enjoys 45% market share in M&HCV, 74% in LCV, 57% in tractors and 31% in passenger vehicles segment. With revenues of around ~Rs. 2,500 crore in FY2018 and having more than five decades of presence in the wheel rim industry the company is a dominant player.

Diversified customer base and broad product portfolio catering to all segments in the automobile industry (except two wheelers)- The sales mix is well spread across more than 30 OEM's, with top three OEM's –Tata Motors Limited (TML-rated [ICRA]AA (Stable)/[ICRA]A1+); Ashok Leyland Limited (ALL- rated [ICRA]AA/Positive/[ICRA]A1+) and Mahindra & Mahindra Limited (M&M rated [ICRA]AAA/Stable/[ICRA]A1+) accounting for over 47% of total sales during FY2018. In terms of product diversification, tractors contribute to 18.8%, M&HCV to 22.6%, LCV to 5%, Earthmovers to 14.7%, drop center wheels (wheels used in tube less commercial vehicles) to 2.7% and Passenger Vehicle to6.3% of revenues. This apart power structures and railways together contributed to 8% and air suspension to 8% of revenues in H1FY2019. Thus, the diversification across OEM's and different industry segments has stood the company in good stead, aiding in minimizing the extent of cyclicality inherent to the auto industry.

Being part of TVS group, WIL enjoys considerable financial flexibility with financial institutions- WIL is part of the TVS group of companies, with Sundaram Finance Holdings Ltd (rated [ICRA]AAA (Stable)/ [ICRA]MAAA (Stable)/ [ICRA]A1+ reaffirmed in December 2018), TVS Sundaram Iyengar & Sons ([ICRA]AA/Stable/A1+ reaffirmed in Feb 2018) and Southern Roadways Limited together holding 40.77% stake in the company.

Credit challenges

Exposure to cyclicality in the auto industry, given the heavy dependence on the same- WIL's auto business accounted for 80% of revenues during FY2018 thus exposing the company to the cyclical trends in automobile industry. WIL's presence is also restricted to steel wheel rims in the passenger vehicle segment, where there has been rapid penetration of aluminum alloy wheel rims. At present, alloy wheels account for about 25%-27% of domestic automotive wheel rim requirement in the Indian PV industry and its share is increasing gradually. In this context, entry into counter-cyclical segments like power segment and railway components aids to de-risk revenue concentration and mitigate the cyclicality of auto industry. During the latter part of FY2018, the company started supplying bogie frame and bogie bolsters for Linke Hofmann Busch (LBH) coaches for Indian Railways.

Capital intensive industry with continuous debt funded capex resulting in a leveraged capital structure- The Total Debt of the company consists of term loans, working capital borrowings from the bank, commercial paper, bills discounting and public deposits, standing at Rs.599.5 crore as on March 31, 2018. The company had also availed new term loan of Rs. 45.0 crore during H1FY2019. WIL has spent ~Rs.120.0 crore during FY2018 and has plans to incur ~Rs. 500.0 crore on a consolidated basis over next three years. Past investments were largely towards regular maintenance, de-bottlenecking efforts, automation and enhancing productivity improvements across plant. Investments planned in the future, majorly includes spend towards setting up a cast aluminum plant to cater to Trucks and all-terrain vehicles, disc line facility in its wholly-owned subsidiary WIL Car Wheels Limited (WCWL) Vanod plant and rest towards regular maintence and automation and enhancing productivity improvements. While part of the capex is planned to be debt funded, ICRA expects the capital structure to remain broadly at current levels of TD/TNW at 0.9x and TD/OPBDITA at 3.02x as on March 31, 2018.

Stiff competitive pressures impacting margins- The intense nature of competition in the steel wheel rim industry along with penetration of alloy wheels exerts pressure on the market share of the company. WIL is characterized by moderate operating profit margins of 7.8% and 7.4% during FY2018 and 9M FY2018 owing to the relatively commoditized nature of its products. Further WIL's revenues are susceptible to any adverse fluctuations in foreign currency movements given that export business accounts for 16% of the revenues in FY2018. The company hedges only a portion of its exposure (unhedged exposure as at March 31, 2018 is Rs. 55.81 crores) thus profitability remains exposed to foreign exchange fluctuations risk.

Liquidity Position:

The liquidity position of the company is comfortable. WIL utilises about 86% of its sanctioned working capital limits on an average providing a buffer in the form of undrawn bank lines. The company also extensively uses commercial paper (CP) for its working capital requirements which is within its working capital limits.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Wheels India Limited; as on March 31, 2018, the company had one subsidiary and one associate which are listed in Annexure-2

About the company:

Wheels India Limited (WIL), part of the TVS group of companies, was incorporated in 1960 as a joint venture between Dunlop, UK (35.9% stake) and the TVS group (remaining stake). In 1999, Titan Europe Plc. (Titan Europe) of Titan International Inc (rated by Moody's B3/ratings under review for downgrade in January 2019) bought out Dunlop's stake of 35.9% in WIL. Titan Europe PLC was fully acquired by Titan International Inc. Consequently, Titan International Inc inherited the 35.9% stake in the Company. In compliance with SEBI regulations, following an open offer, Titan International Inc increased its stake in WIL to 41.73%.

Titan International is a global major in the off-highway wheel manufacturing business. Its primary markets include agriculture, earthmoving/construction and consumer applications. In March 2014, in order to comply with the Minimum Public shareholding (MPS) requirement, WIL undertook a rights issue. Following the rights issue, the combined stake of the promoters (Titan and TVS group) has been pared down to 75%.

WIL is the largest manufacturer of wheel rims in the country and is present across all automotive segments namely passenger cars, CVs, utility vehicles (UV), tractors and Earth Movers (EM), except two-wheelers. Further, WIL is a leading manufacturer of air suspension systems for luxury buses in India and has ventured into manufacturing of power structures. The company is geographically well-diversified and has manufacturing facilities at Padi (TN), Rampur (UP), Pune (Maharashtra), Bawal (Haryana), Sriperumbudur (TN), Deoli, SIPCOT (TN), Nashik. WIL sold its light passenger wheels business in Bawal and Padi plants to its subsidiary WIL Car Wheels Limited w.e.f from 1st Sep 2017

In June 2017, WIL entered into a strategic partnership in the passenger car steel wheel rim business in India with Topy Industries Limited, whereby Topy acquired 26% stake in WIL Car Wheels Limited (WCWL), a wholly-owned subsidiary of WIL. The investment was made through new issue of equity shares by WCWL to Topy Industries Limited.

Key financial indicators (audited)

	FY2017(Consol)	FY2018(Consol)
Operating Income (Rs. crore)	2,172.9	2,562.6
PAT (Rs. crore)	58.4	73.4
OPBDIT/OI (%)	8.9%	7.8%
RoCE (%)	13.1%	13.7%
Total Debt/TNW (times)	1.0	1.0
Total Debt/OPBDIT (times)	2.5	3.0
Interest coverage (times)	4.0	4.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument			Current Rating (FY2019)			Chronology of Rating History for the past 3 years @					
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY19	Date & Rating in FY18		Date & Rating in FY17		Date & Rating in FY16	
					Mar,19	Apr,18	Jan, 18	Jun, 17	Dec,16	Aug,16	Dec,15	Oct,15
1	Fixed deposit	Medium term	150.00	-	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)
2	Term loan	Long term	160.00	93.5	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund based-CC	Long term	260.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Unallocated	Long term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Non-fund based facilities	Short term	150.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1
6	Unallocated	LT/ST	30.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA] A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
7	Commercial Paper	Short term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[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	Fixed Deposit	-	-	-	150.00	MA+(Stable)
NA	Commercial Paper	-	-	7-365 days	100.00	[ICRA]A1+
NA	Term Loan-1	FY2012	-	FY2019	3.50	[ICRA]A+(Stable)
NA	Term Loan-2	FY2013	-	FY2019	-	[ICRA]A+(Stable)
NA	Term Loan-3	FY2014	-	FY2021	12.50	[ICRA]A+(Stable)
NA	Term Loan-4	FY2015	-	FY2020	9.40	[ICRA]A+(Stable)
NA	Term Loan-5	FY2014	-	FY2020	7.50	[ICRA]A+(Stable)
NA	Term Loan-6	FY2016	-	FY2021	15.60	[ICRA]A+(Stable)
NA	Term Loan-7	FY2019	-	FY2024	20.00	[ICRA]A+(Stable)
NA	Term Loan-8	FY2019	-	FY2024	25.00	[ICRA]A+(Stable)
NA	Term Loan-unallocated	-	-	-	66.5	[ICRA]A+(Stable)
NA	Fund based facilities- Cash Credit	-	-	-	260.00	[ICRA]A+(Stable)
NA	Letter of Credit & Bank Guarantee	-	-	-	150.00	[ICRA]A1+
NA	LT/ST: Unallocated	-	-	-	30.00	[ICRA]A+ (Stable)/[ICRA]A1+

Source: Wheels India Limited

Annexure-2: 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

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 45964314
pavethrap@icraindia.com

Pooja Mundhra
+91 44 45964313
pooja.mundhra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999