

WIL Car Wheels Limited

March 22, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term Loan	-	55.00	[ICRA]A- (Stable); reaffirmed
Long term – Unallocated	20.00	10.00	[ICRA]A- (Stable); reaffirmed
Short term – Fund based facilities	-	45.00	[ICRA]A1; reaffirmed
Short term – Unallocated	60.00	-	-
Total	80.00	110.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation favourably factor in the strong parentage, being part of Wheels India group (of the broader TVS group) and the extensive experience of the promoter (Mr. Srivats Ram) and experienced management spanning over several years in the wheel rim industry. During H1FY2019, the company clocked revenues of Rs. 182.2 crores supported by steady domestic growth in its passenger vehicle segment. The ratings draw comfort from WCWL's strategic partnership with Topy Industries Limited, which will aid revenue growth by opening export opportunities through leveraging its relationship with global car companies.

The rating also considers WCWL's established customer base comprising of major Original Equipment Manufacturers (OEM's) like Maruti Suzuki India Limited , Hyundai Motors India Limited , Renault Nissan Automotive India Pvt Limited , Toyota Kirloskar Motor Pvt Limited to name a few.

The ratings take note of the company's locational advantage (plants being in close vicinity to customers) and the healthy utilisation in its newly commissioned Vanod facility. That said, due to the intensely competitive industry and relatively small scale of operations, profitability indicators are modest. WCWL ability to put the passenger car steel wheel rims business on a growth path and scale up its revenues by harnessing the technology skills and global relationships of Topy Industries Limited (Topy) will remain key rating monitorables.

Outlook: Stable

ICRA believes WIL Car Wheels Limited (WCWL) will benefit from the leadership position already established by Wheels India Limited (WIL) in the passenger car steel wheel segment in India and the technology skills and global relationships with Topy. The outlook may be revised to 'Positive' if the company is able to scale up its revenue and sustain profitability, with better working capital management. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Strong parentage and technological support from strategic partners; WIL is the leading manufacturer of steel wheels rims in India while Topy is a leading manufacturer of steel wheels globally- WCWL is a subsidiary (74%) of WIL (rated [ICRA]A+(Stable)/MA+(Stable)/[ICRA]A1+), which is part of the TVS Group and balance 26% equity is held by

Topy Industries Limited. The company benefits from the strong parentage, as it gets both operational and technological support from its strategic partners. WIL is the leading manufacturer of steel wheel rims for cars, trucks, tractors and construction and mining equipment; forged aluminum wheels for trucks, air suspension systems for buses and trucks, components for energy equipment and components of railway coach. Topy, part of the Topy Group, is the leading manufacturer of steel wheels for cars, trucks, construction and mining equipment globally. WCWL would benefit from the strong technological support from Topy, who has been associated with WIL (providing technological support) for over a decade.

Locational Advantage, strong customer relationships and healthy market share- WCWL's new manufacturing facility at Vanod, Gujarat is close to its major customer Suzuki Motors India Limited, which helps it in keeping freight costs low. The new facility at Vanod has commenced commercial production from July 2018 and is running at utilisation of around 50% as on September 30, 2018 and is expected to cater to all future growth at its customer Suzuki Motors for the next few years. Its Bawal plant is primarily catering to the requirements of Maruti Suzuki India Limited, and gives it a cost advantage with reduced logistics. Its plant at Padi, Tamil Nadu is in proximity of Hyundai Motor India Limited.

WCWL is servicing the diversified customer base already established by its parent WIL. The customer base includes reputed original equipment manufacturers (OEM's) like Maruti Suzuki India Limited, Hyundai Motors India Limited, Renault Nissan Automotive India Pvt Limited, Toyota Kirloskar Motor Pvt Limited, Ford India Pvt Limited and Isuzu Motors India Pvt Limited. The company has 49% market share in the passenger vehicle market. Going forward, the company plans to tap Topy's global relationships to enable WCWL to build alliances with overseas customers and build new overseas customers.

Strong management team- WCWL, has a strong management team chaired by Mr. Srivats Ram (Managing Director, WIL) who has over 30 years of experience in the Vehicle and Component Industry. He was also the immediate past President of The Automotive Component Manufacturers Association of India (ACMA). The company has one representation from Topy Industries and has appointed two additional independent directors to ensure transparency. The management team is independent and consists of members having extensive experience in wheel rim industry.

Credit challenges

Ability to scale up revenues and R&D capabilities to cater to complex requirements from newer clients: WCWL ability to put the light passenger car steel wheel rims business on a focused growth path and scale up its revenues by harnessing the technology skills and global relationships of Topy Industries Limited remains to be seen.

Thin profit margins – WCWL has thin operating margins owing to the commoditized nature of its products. Further, the intense nature of competition in the steel wheel rim industry along with penetration of alloy wheels in passenger vehicles exerts pressure on margins. During H1FY2019, the company's operating margins were 3.8%. WCWL ability to put the passenger car steel wheel rims business on a growth path and scale up its revenues by harnessing export opportunities is expected to support its margins going forward.

Liquidity Position:

The company's liquidity position is comfortable supported by undrawn term debt of Rs. 25.0 crores as on September 30, 2018. WCWL utilises about 82% of its sanctioned working capital limits on an average providing a buffer in the form of undrawn bank lines.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Parent/Group Company: Wheels India Limited (WIL) We expect WCWL's parent, WIL [rated [ICRA]A+ (Stable)/MA+/Stable/[ICRA]A1+], to be willing to extend financial support to WCWL, should there be a need, given the high strategic importance that WCWL holds for WIL for meeting its diversification objectives. Both WCWL and WIL also share a common name, which in ICRA's opinion would persuade WIL to provide financial support to WCWL to protect its reputation from the consequences of a group entity's distress.
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company:

Incorporated in June 2017, WCWL is a part of the TVS Group (promoted by WIL (74% stake) rated at [ICRA]A+/Stable/A1+/MA+/Stable) with the rest being held with Topy Industries Limited, a company headquartered in Japan and an automobile and industrial machinery parts manufacturer. WCWL is chaired by Mr. Srivats Ram who is also the Managing Director of WIL, and a part of the TVS family; his grand-father Mr. T.S. Santhanam, founder and chairman of Sundaram Finance Limited is the son of Mr. T.V. Sundaram Iyengar, founder of the TVS Group of Companies.

WCWL is primarily engaged in the manufacture of light passenger car steel wheel rims in India. The steel wheel rims manufactured are currently supplied to reputed OEM's like Maruti Suzuki India Limited, Hyundai Motors India Limited, Renault Nissan Automotive India Pvt Limited, Toyota Kirloskar Motor Pvt Limited to name a few.

WCWL was formed as a Wholly Owned Subsidiary (WOS) of WIL by way of equity infusion of Rs. 3.7 crores in June 16, 2017. In August 30, 2017, WIL hived off its light passenger steel wheel rims business by way of slump sale to its WOS for a consideration of Rs.60 crores. In September 16, 2017, 26% stake was sold to Topy Industries Limited who infused Rs. 83.00 crores as securities premium and Rs. 1.30 crores as equity share capital.

The company in addition with capacities at Bawal (Haryana) and Padi (Tamil Nadu) has set up a new manufacturing facility in Vanod (Gujarat) with a capacity of 1.5 million-wheel rims per annum which started commercial production from July 2018.

Key financial indicators (audited)

	7 months period March 2018)	(01 September 2018-31
Operating Income (Rs. crore)	179.1	
PAT (Rs. crore)	1.6	
OPBDIT/OI (%)	3.2%	
RoCE (%)	15.9%	
Total Debt/TNW (times)	-	
Total Debt/OPBDIT (times)	-	
Interest coverage (times)	17.4	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2018	FY2017	FY2016
1	Unallocated	10.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2	Term Loan	55.00	30.00	[ICRA]A-(Stable)	-	-	-
3	Fund based facilities	45.00	-	[ICRA]A1	-	-	-
4	Unallocated	-	-	-	[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
-	Unallocated- Long term	-	-	-	10.00	[ICRA]A- (Stable)
-	Term Loan 1	FY2019	-	FY2023	20.00	[ICRA]A- (Stable)
-	Term Loan 2	FY2019	-	FY2024	35.00	[ICRA]A- (Stable)
-	Fund based facilities – Vendor bills discounting	-	-	-	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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