India Ratings & Research
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India Ratings Upgrades Steel Strips Wheels to 'IND A-'/Positive; Rates Additional Loan

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By Pallavi Bhati

India Ratings and Research (Ind-Ra) has upgraded Steel Strips Wheels Limited's (SSWL's) Long-Term Issuer rating to 'IND A-' from 'IND BBB+'. The Outlook is Positive. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR3,000 (increased from INR2,750)	IND A-/Positive/IND A2+	Upgraded
Term loans	-	-	FY27	INR5,400 (reduced from INR5,513)	IND A-/Positive	Upgraded
Non-fund based working capital limits	-	-	-	INR4,550 (reduced from INR4,650)	IND A-/Positive/IND A2+	Upgraded
Proposed non-fund based working capital limits	-	-	-	INR1,200	IND A-/Positive/IND A2+	Assigned

The upgrade follows SSWL's healthy operating performance and improvement in credit metrics in 2HFY21 and 1QFY22.

The Positive Outlook reflects Ind-Ra's expectation of continued improvement in FY22 owing to an increase in sales from margin-accretive alloy wheel and export segments. Resultantly, Ind-Ra expects SSWL's adjusted net leverage to reduce to below 3.5x by FYE22 (FYE21:5.5x) and further to below 3x by FYE23.

KEY RATING DRIVERS

Operating Performance to Improve in FY22: Ind-Ra expects SSWL to generate strong revenue growth in FY22 to over INR30,000 million (FY21: INR17,494 million; FY20: INR15,633 million) on the back of demand recovery of 12%-16% expected across auto segments; the company's strong share of business with original equipment manufacturers (OEMs); healthy offtake in exports; expansion in alloy wheel plant leading to higher capacity availability, and higher realisation due to the pass through of increased raw material prices to customers. In 5MFY22, the company recorded revenue of INR12,575 million.

The agency also expects EBITDA margins to expand to 12%-12.5% in FY22 (FY21: 11.6%; FY20: 11%) due to higher sales from margin-accretive passenger vehicle (PV) alloy wheel rim and export segments, in addition to improved operating leverage. Although the raw material prices of steel and aluminium have firmed up, the company has been able to pass on price increases to OEMs with a lag of around three months, thus, protecting margins to an extent.

Ramp-Up in Contribution from Margin-Accretive Segments: The operations at SSWL's alloy wheel plant in Mehsana (Gujarat) have ramped up from September 2020 and it is operating at full utilisation levels. The company has a strong share of business in the models it caters to for Hyundai Motor India Ltd, Mahindra & Mahindra Ltd ('IND AAA'/Stable), Tata Motors Ltd, KIA Motors India Pvt Ltd etc. The revenue from alloy wheel rims contributed 20% to 1QFY22 revenues (FY21: 19%; FY20: 7%).

Furthermore, the company's foray into the export market has resulted in increased order inflows with its contribution supporting sales in 1QFY22, at a time when domestic OEM demand was adversely affected. Exports contributed to around 26% of the revenue in 1QFY22 (FY21: 15%; FY20: 14%). The ramp-up in sales from these segments has led to EBITDA margin of 14.4% in 1QFY22 (4QFY21: 12.3%; 3QFY21: 12.5%) despite firming up of raw material prices. Ind-Ra expects the contribution from both the segments to remain high at over 40% in FY22, gradually improving to 50% in the medium term. Thus, the alloy wheel and export segment remain important contributors to profitability.

Deleveraging Expected in FY22: SSWL's adjusted net leverage (net debt adjusted for letter of credit (LC) acceptances/trailing-12 months EBITDA) reduced to 4.1x in 1QFY22 (FY21: 5.5x; FY20: 6.3x) primarily supported by healthy EBITDA generation (1QFY22: INR978 million; FY21: INR2,038 million). The company's gross debt, although reduced to INR9,373 million in FY21 (FY20: INR10,011 million), was marginally higher in 1QFY22 to support working capital requirements and capex spend.

The agency expects the company's net adjusted leverage to further reduce to below 3.5x by FYE22 and to below 3x by FYE23 on the back by strong profit generation, although partially offset by expansion plans over this period. SSWL's interest coverage (EBITDA/interest expense) rose to 5x in 1QFY22 (FY21: 2.4x; FY20: 1.9x) due to improved operating profitability and the same is expected by the agency to moderate to around 4x for FY22 due to higher absolute profitability.

Liquidity Indicator - Adequate: SSWL recorded modest positive free cash flows (FCF) in FY21 of INR34 million (FY20: negative INR677 million; FY19: negative INR42 million) due to healthy cash flow from operations, although capex remained high yoy. The company's net working capital requirements (creditors exclude LC acceptances) remained high and unchanged at 125 days in FY21 given a high-value inventory required for alloy wheels rims, and an increased inventory stocking to mitigate expected price hikes in key raw materials. The company had unencumbered cash and bank balances of INR386 million on FYE21.

Ind-Ra expects SSWL's FCF to turn negative in FY22 again on account of larger working capital requirements due to the increased scale, along with the capex plans. However, the agency believes the company's internal cash flows would be supported by the sanctioned loans of about INR1,230 million available to be drawn in FY22. The agency expects positive FCF generation from FY23, and the same is a key monitorable.

During FY21, SSWL benefitted from an ad-hoc increase in its fund-based limits to accommodate the maturities of outstanding LCs after the COVID-19 led lockdown. These limits were repaid by the company fully by December 2020, as the company's profitability improved from 2QFY21. Over January to August 2021, the month-end utilisation of the fund-based limits averaged 80%, while that of the non-fund-based limits averaged 86%. Majority of SSWL's procurement is on LC basis; however, the company has recently started receiving open credit from a large supplier. This, the agency believes will somewhat ease the company's non-fund-based limits utilisation levels.

SSWL has debt repayments of INR1,724 million in FY22 and INR1,590 million in FY23, and the agency believes it will be met through internal accruals. On 27 August 2021, SSWL's promoter had pledged 29% (June 2021: 37.1%, March 2021: 45.0%, March 2020: 49.9%) of the total shares held for the loans taken and support extended to Indian Acrylics Limited (owned by SSWL's promoters) for capex. Ind-Ra will continue to monitor the promoter share pledging.

Locational Advantage; Strong Customer Relationships: SSWL's Chennai plant is located close to the port as well as Renault Nissan Automotive India Private Limited, which enables the company to keep its freight costs cost low and also cater to export markets. Its Jamshedpur plant primarily caters to the requirements of Tata Motors, and its proximity to the latter and Tata Steel Ltd ('IND AA'/Positive) gives it an advantage over competitors in terms of lower logistic and raw material costs.

SSWL's alloy wheel plant in Mehsana is situated close to Tata Motors. SSWL has strong relationships with its suppliers – Tata Steel and Sumitomo Metal Industries Ltd, which are also strategic investors in the company, with a stake of 6.97% and 5.45%, respectively, as of June 2021. SSWL has technology tie-ups with Ring Techs Co Ltd, Japan. For its alloy wheel plant, it has entered into a technical collaboration with Kalink Co Ltd.

Diversified Revenue Base: Historically, commercial vehicles (CV) have dominated the company's revenue base (FY21: 20%; FY20: 27%; FY19: 42%). However, with the steepest production decline at OEM level in the CV segment, and scale up of alloy wheel sales, PV became the largest contributor to revenue with a share of 49% in FY21 (FY20: 38%; FY19: 26%); tractors contributed 17% (19%;15%), followed by two and three-wheelers at 3% (6%; 5%). Exports for the company are also on an increasing trend contributing 15% to the FY21 revenue (FY20: 14%; FY19: 10%).

Healthy Share of Business: SSWL has healthy market share of 50% in PV, 53% in medium and heavy commercial vehicles, 44% in tractors, 70% in off the road segment, and 30% in two and three-wheelers. The company also enjoys strong share of business with domestic OEMs.

Continued Capex Plans; Return on Capital Employed Constrained: SSWL has undertaken continuous capex totalling INR6,106 million over FY18-FY21 primarily to expand its manufacturing facilities. However, demand growth had been restricted during this period on account of the auto sector slowdown, especially in the CV segment, and the pandemic. Although the capacity utilisation at SSWL's plants (excluding Mehsana) fell to 65.4% in FY21 (FY20: 73.4%; FY19: 90.3%) due to 1QFY21 production shutdowns, it increased on a quarterly basis (4QFY21: 89.7%; 3QFY21: 86.1%) as demand from both domestic and export market surged. Furthermore, even through OEM demand was impacted in 1QFY22 due to the second COVID-19 wave, capacity utilisation (excluding Mehsana) remained healthy at 78.4%, supported by strong export orders.

SSWL has undertaken capex at its Mehsana alloy wheel plant to double the capacity by 3QFY22 in light of strong OEM demand and new export orders. The overall capex cash outflow in FY22 is estimated at close to INR1,250 million (FY21: INR906 million) to be funded through a mix of internal accruals and debt. Furthermore, the company could also explore inorganic expansion for steel wheel rim capacity in the near term. As per the management, the same would be largely funded by internal accruals. Ind-Ra believes that timely production ramp up and continued healthy offtake of the enhanced capacities will remain key to the elevation in profitability and return on capital employed (FY21: 8.7%; FY20: 7.4%; FY19: 12.4%), as well as deleveraging.

RATING SENSITIVITIES

Positive: A significant and sustained yoy improvement in the revenue and profitability along with a reduction in the working capital cycle, while reducing the adjusted net leverage below 3.5x, along with visibility on the FCF turning positive, could lead to the ratings being upgraded.

Negative: Decline in the revenue or profitability, stretch in the working capital cycle, or any large debt funded organic or inorganic capex, leading to the adjusted net leverage sustaining above 3.5x, could lead to the Outlook being revised to Stable.

COMPANY PROFILE

SSWL was incorporated in 1985. It started operations in 1991 and manufactures steel wheel rims in the range of 10 to 30 inch diameter for passenger car vehicles, utility vehicles, tractors, trucks, two wheelers, etc.

FINANCIAL SUMMARY

Particulars	FY21	FY20
Net revenue (INR million)	17,494	15,633
EBITDA (INR million)	2,038	1,712
EBITDA margin (%)	11.6	11.0
Interest coverage (x)	2.4	1.9
Adjusted net leverage (x)	5.5	6.3
Source: SSWL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook					
	Rating Type	Rated Limits (million)	Rating	9 March 2021	13 May 2020	21 January 2020	7 August 2019	12 February 2019	20 July 2018
Issuer rating	Long-term	-	IND A-/Positive	IND BBB+/Stable	IND BBB+/RWN	IND A-/Stable	IND A-/Positive	IND A-/Stable	IND A-/Stable
Fund-based working capital limits	Long-term/ Short-term	INR3,000	IND A-/Positive IND A2+	IND BBB+/Stable/IND A2	IND BBB+/RWN/IND A2/RWN	IND A-/Stable/IND A2+	IND A-/Positive/IND A2+	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+
Long-term loan	Long-term	INR5,400	IND A-/Positive	IND BBB+/Stable	IND BBB+/RWN	IND A-/Stable	IND A-/Positive	IND A-/Stable	IND A-/Stable
Non-fund-based working capital limits	Long-term/ Short-term	INR5,750	IND A-/Positive IND A2+	IND BBB+/Stable/IND A2	IND BBB+/RWN/IND A2/RWN	IND A-/Stable/IND A2+	IND A-/Positive/IND A2+	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+

BANK WISE FACILITIES DETAILS

Click here to see the details

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Term loans	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

Analyst Names

Primary Analyst

Pallavi Bhati

Senior Analyst
India Ratings and Research Pvt Ltd DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City,
Gurugram Haryana - 122002
0124 6687256

Secondary Analyst

Tej Karan Singh

Senior Analyst

Committee Chairperson

Abhishek Bhattacharya

Senior Director and Head Large Corporates
+91 22 40001786

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121