India Ratings & Research
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India Ratings Affirms Steel Strips Wheels at 'IND BBB+'/Stable; Off RWN

09

MAR 2021

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India Ratings and Research (Ind-Ra) has affirmed Steel Strips Wheels Limited's (SSWL) Long-Term Issuer Rating at 'IND BBB+' while resolving the Rating Watch Negative (RWN). The Outlook is Stable. 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	-	-	-	INR2,750	IND BBB+/Stable/IND A2	Affirmed; Off RWN
Term loans	-		FY25	INR5,513 (reduced from INR6,050)	IND BBB+/Stable	Affirmed; Off RWN
Non-fund-based working capital limits	-	-	-	INR4,650	IND BBB+/Stable/IND A2	Affirmed; Off RWN

The RWN resolution and rating affirmation follow healthy growth in SSWL's revenue and profitability over 2HFY21, leading to an improvement in its liquidity position. Ind-Ra expects a continued improvement in operating performance in FY22 will further support its cash flows.

KEY RATING DRIVERS

Operating Performance to Improve in FY22: SSWL's revenue grew 11.8% yoy in 2QFY21 and 52.7% yoy in 3QFY21, as the demand picked up across segments, especially for passenger vehicle (PV) alloy wheel rims and tractors, and in the export market. SSWL recorded 9MFY21 revenue of INR10,495 million, down 10.8% yoy, tempered by the shutdowns, leading to a loss of revenue in 1QFY21, and a weaker demand in commercial vehicles (CV) segment. The contribution from the margin-accretive PV alloy wheel rims and exports segments increased to 37% of the revenue in 9MFY21 (FY10: 21%) which led to EBITDA margin growth in 2QFY21 and 3QFY21 on a yoy basis. However, in 9MFY21, the margin contracted to 11.2% (9MFY20: 11.9%, FY20: 11%; FY19: 12%), primarily due to weaker operating leverage. Raw material prices, especially of steel, have firmed up, however, the company is able to pass on price increases to original equipment manufacturers with a lag of two to three months, thus, protecting margins to an extent.

Ind-Ra expects the revenue in FY21 to remain flattish at about INR17,000 million. However, it is expected to grow to about INR21,000 million in FY22, backed by a strong order book coupled with an increase in the alloy wheel rim capacity and a pick-up in auto demand, especially CVs. Ind-Ra expects SSWL's EBITDA margin to improve yoy to 11.0%-11.5% in FY21, supported by higher sales in the margin-accretive segment, and further to 13.5%-14.0% from FY22.

Deleveraging Expected in FY22: SSWL's adjusted net leverage (net debt and letter of credit (LC) acceptances/trailing twelve months EBITDA) had increased to 8.6x in 1HFY21 (FY20: 6.3x, FY19: 4.2x), on account of the crystallisation of LC liabilities coupled with lower profitability. However, it improved to 7.3x for 9MFY21 as the company discharged the ad-hoc borrowings and profitability continued to pick up in 3QFY21. Hence, the gross debt also reduced to INR9,286 million in 9MFY21 (1HFY21: INR10,226 million, FY20: INR10,011 million, FY19: INR9,876 million). SSWL's interest coverage (EBITDA/interest expense) was moderate at 1.8x in 9MFY21 (FY20: 1.9x, FY19: 2.7x).

Ind-Ra expects a modest improvement in the credit metrics by FY21-end, because while profits in 4QFY21 could be healthy, additional debt drawing would continue for the capex underway. However, the agency expects the adjusted net leverage to reduce to about 4.0x in FY22 with significantly lower capex in FY22-FY23 along with a continued improvement in the profitability. The interest coverage is also expected to increase above 3.0x.

Ramp-Up of Alloy Wheel Plant to Contribute to Profitability: The operations at the alloy wheel plant in Mehsana have ramped up from September 2020 and are operating at close to 100%. The company has a strong share of business in the models it caters to for Hyundai Motor India Ltd, KIA Motors India Pvt Ltd, Mahindra & Mahindra Ltd ('IND AAA'/Stable), Tata Motors Ltd etc. The revenue from alloy wheel rims contributed 20% to the 9MFY21 revenue (FY20: 7%) which (along with increasing sales of exports) aided healthy EBITDA margins of 12.3% in 2QFY21 and 12.5% in 3QFY21 (FY20: 11%). Ind-Ra expects the contribution to remain at 20%-25%, given the healthy order book. Ind-Ra believes that the continued successful ramp-up of the Mehsana plant will be an important contributor to the profitability.

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'/Negative) 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 Ford India Private Limited ('IND AA-'/RWN) and 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 December 2020. SSWL has technology tie-ups with Ring Techs Co Ltd, Japan, and a technical collaboration with Kalink Co Ltd for its alloy wheel plant.

Diversified Revenue Base: Historically, CVs have dominated the company's revenue base (9MFY21: 17%, FY20: 27%, FY19: 42%). However, with the steeper production decline in the segment than other segments, PVs became the largest contributor to the revenue in 9MFY21 with a share of 51% (FY20: 38%, FY19: 26%). Tractors contributed 19% in 9MFY21 (FY20: 19%, FY19: 15%), followed by two and three-wheelers at 3% (FY20: 6%, FY19: 5%). Exports for the company are also on an increasing trend, contributing 17% to the 9MFY21 revenue (FY20: 14%, FY19: 10%).

Liquidity Indicator - Stretched: During FY21, the company 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 its profitability improved from 2QFY21. Ind-Ra expects cash flows to improve in FY21 due to higher profits in 2HFY21 and tight control on working capital by the management, partly offset by the continued capex spend, leading to low free cash flows. The agency expects the cash flow improvement to continue in FY22.

The overall utilisation of the working capital limits was close to 87% for the 12 months ended January 2021. The company had unencumbered cash and bank balances of INR672 million on 9MFYE21. The free cash flows remained constrained in 1HFY21 at negative INR445 million (FY20: negative INR909 million, FY19: negative INR42 million) due to working capital absorption as well as capex of INR189 million (INR836 million, INR942 million) for the brownfield expansion of its alloy wheel plant in Mehsana. Also, the company's net working capital cycle (9MFY21: 90 days, FY20: 79 days, FY19: 51 days) has stretched, given a) a higher value inventory required for alloy wheels rims, b) a higher inventory stocking to mitigate expected price hikes in key raw materials, and c) higher receivables as sales continued to increase.

SSWL has debt repayments of INR888 million in FY21, INR1,706 million in FY22, and INR1,484 million in FY23, which Ind-Ra expects to be met through internal accruals. The company has recently drawn a term loan of INR400 million which can provide support in case of cash flow mismatches. It is also planning a land sale of INR300 million to INR400 million in FY22. SSWL had availed COVID-19 debt relief moratorium over March-August 2020. On 22 February 2021, SSWL's promoter had pledged 42% (December 2020: 45.12%, March 2020: 49.91%) of the total shares held for the loans taken and support extended to other group companies (owned by SSWL's promoters) for capex. Any financial support flowing from SSWL to other group entities and/or increase in the pledged shares could be credit negative.

Continued Capex Plans: SSWL had been undertaking continuous capex totalling INR10,117 over FY16-FY20 to meet demand. While its revenue grew at a healthy CAGR of 14.6% over FY16-FY19, it declined 23.4% yoy in FY20 on account of a slowdown in the industry across segments, especially impacting CV. Accordingly, the capacity utilisation at SSWL's plants (excluding Mehsana) fell to 73.4% in FY20 (FY19: 90.3%). The same increased to 86.2% in 3QFY21 (1HFY21: 21.4%) as demand from both domestic and export market surged.

In FY21-FY22, SSWL is expanding its Mehsana alloy wheel plant's capacity by 60% to meet its order book. The capex of nearly INR1,300 million is being funded by a debt of INR850 million and will be largely completed in FY21. SSWL does not have any further expansion plans in its steel rim facilities. Any delays in the production ramp-up of the enhanced capacities could curtail SSWL's profit generation and return on capital employed (FY20: 7.4%, FY19: 12.4%). Also, any other significant debt-funded capex could delay the deleveraging exercise.

RATING SENSITIVITIES

Positive: A significant and sustained improvement in the revenue and profitability margins along with a reduction in the working capital cycle, while reducing adjusted net leverage (net debt and LC acceptances/EBITDA) below 4.0x, could lead to a positive rating action.

Negative: A significant decline in the revenue or profitability, stretch in the working capital cycle, or any large debt funded capex, leading to adjusted net leverage (net debt and LC acceptances/EBITDA) sustaining above 4.5x FY22 onwards, could lead to a negative rating action.

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	**9MFY21**	**FY20**	**FY19**
Net revenue (INR million)	9,495	15,633	20,412
EBITDA (INR million)	1,177	1,712	2,459
EBITDA margin (%)	11.2	11.0	12.0
Interest coverage (x)	1.8	1.9	2.7
Adjusted net leverage (x)	7.3*	6.3	4.2
*Based on TTM EBITDA and provisional debt figures Source: SSWL, Ind-Ra			

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Rating Watch/Outlook**				
	Rating Type	**Rated Limits (million)**	**Rating**	**13 May 2020**	**21 January 2020**	**7 August 2019**	**12 February 2019**	**5 January 2018**
Issuer rating	Long-term	-	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	INR2,750	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	INR5,513	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	INR4,650	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+

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