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India Ratings Upgrades Steel Strips Wheels to 'IND AA-'/Stable; Rates Additional Term Loans; Withdraws Long-Term Issuer Rating

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Steel Strips Wheels Limited (SSWL):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Issuer rating*	-	-	-	-	WD	Withdrawn
Fund-based working capital limits	-	-	-	INR3,000	IND AA-/Stable/IND A1+	Upgraded
Term loans	-	-	FY28	INR2,996 (reduced from INR3,743)	IND AA-/Stable	Upgraded
Term loans	-	-	FY30	INR1,773	IND AA-/Stable	Assigned
Non-fund based working capital limits	-	-	-	INR5,750	IND AA-/Stable/IND A1+	Upgraded

*Ind-Ra has discontinued the voluntary disclosure of issuer ratings, due to the regulatory requirement. Following the revision in assigning issuer rating practice, the outstanding voluntary issuer rating disclosure of SSWL at 'IND AA-'/Stable stands withdrawn.

The upgrade reflects a sustained improvement in SSWL's revenue and credit metrics over FY20-FY23, a resilient operating profitability, rangebound EBITDA margins, a reduction in promoter's shares pledge and an increased share of higher-margin business (alloy wheels) in the revenue, leading to a significant improvement in its business profile.

Key Rating Drivers

Strengthened Business Profile: Following SSWL's capacity expansion over FY18-FY23, the company has become a leading supplier of alloy wheel rims in the country. The company's Mehasana (Gujarat) plant, which has a total facility size of 3 million units as of FY23, operated at above 90% capacity utilisation. SSWL is likely to increase its production capacity further to 4 million units by 3QFY24 and to 4.8 million units by FYE24, making it the largest alloy wheel manufacturer in the country. The company mainly caters to the domestic market through its current capacities and is undertaking further expansion in the said category to address the demand in the exports market. Of the total estimated capacity, around 75% would cater to the domestic demand and the remaining to the exports markets.

Furthermore, the expected completion of the AMW Autocomponent Limited's (AMW) acquisition by 4QFY24 or 1QFY25, will lead to an additional steel wheel capacity of 6-7 million per annum, totalling to 27.5 million units per annum. The increased capacities, both in the alloy wheels and steel wheels, will help SSWL to strengthen the overall business profile and thereby achieve a leadership position in the wheels industry.

Sustained Growth in Revenue in FY23: SSWL's revenue continued to increase to INR40,405 million in FY23 (FY22: INR35,600 million; FY21: INR17,494 million), on the back of a recovery in demand across all domestic auto segments and the company's ability to add customers and increase/maintain a strong share of business with the original equipment manufacturers (OEMs). A higher realisation due to the pass-through of increased raw material prices to customers, also aided to the revenue growth in FY23. However, the revenue growth was partially offset by a decrease in exports due to macroeconomic headwinds. During 1QFY24, SSWL booked revenue of around INR10,444 million. Ind-Ra expects the revenue to increase further 6%-10% yoy in FY24, on account of the full-year utilisation of the expanded alloy wheel facilities, coupled with a continued recovery in the domestic commercial vehicle (CV) cycle and aided exports; and the likely reduction in commodity prices, affecting sales realisation. The revenue is also likely to benefit from alloy wheel capacity ramp up over the medium term. However, Ind-Ra expects meaningful revenue from the AMW plant to start flowing in from FY25 only.

Consistently Improving Credit Metrics: SSWL's adjusted net leverage (net debt adjusted for letter of credit (LC) acceptances/EBITDA) improved to 2.3x in FY23 (FY22: 2.5x; FY21: 5.5x), primarily supported by a healthy EBITDA generation of INR4,428 million (INR4,528 million; INR2,038 million) coupled with repayment of long-term debt. However, it increased slightly to 2.5x in 1QFY24 on a TTM basis on the back of additional debt taken for the capacity expansion of alloy wheel plant in Mehsana and general capex towards all the other plants. The company's reported gross debt reduced to INR6,383 million at FYE23 (FYE22: INR7,778 million; FY21: INR9,373 million) as it used the free cash flow generated to repay a certain portion of its debt. Adjusting for LC acceptances, it remained at around INR10,451 million at FYE23 (FYE22: INR11,753 million; FYE21: INR11,567 million). The total outside liabilities (gross debt + creditors)/EBITDA also reduced to 3.0x in FY23 from the historical level of 7.0x during FY20 (FY22: 3.2x; FY21: 6.6x). At 1QFYE24, the gross debt stood marginally higher at INR7,895 million and the adjusted debt at INR11,765 million.

The agency expects the net adjusted leverage of 2.1x-2.3x in FY24, on the back of modest profit generation, although partially offset by the debt-funded expansion plans over this period. SSWL's interest coverage (EBITDA/interest expense) stood at 4.8x in 1QFY24 (FY23: 5.3x; FY22: 5.3x; FY21: 2.4x); Ind-Ra expects it to remain above 5.0x in FY24.

Rangebound EBITDA Margins: The company's EBITDA margin remained at 11%-13% over FY18-FY23. (FY23: 11%; FY22: 12.7%; FY21: 11.6%). The decline in margin in FY23 was due to the adjustment of a one-time inventory gain in FY22. Excluding the impact of one-off gain, the margin improved to 11.2% in FY23 (FY22: 11%) on account of increased sales of margin-accretive PV alloy wheel rim, partially offset by lower exports during the year, in addition to improved operating leverage. The EBITDA margin was 10.8% in 1QFY24. Although the price of steel and aluminium (key raw materials) firmed up during the year, the company has been able to pass on the price increases to OEMs with a lag of around three months, thus, protecting its margins to an extent. Ind-Ra expects the EBITDA margins to moderate to 10.5%-11.0% in FY24 to account for the fluctuations in steel prices SSWL's return on capital employed also remained strong at 22.1% (FY22: 23.5%; FY21: 8.7%) and is likely to remain above 20% in the near-to-medium term.

Ramp-up in Contribution from Margin-accretive Segments: The company has a strong business share in the alloy wheel segment in the models for Hyundai Motor India Ltd, Mahindra & Mahindra Ltd ('IND AAA'/Stable), Tata Motors Ltd, KIA Motors India Pvt Ltd, among others. The revenue contribution from alloy wheel rims increased to 31% in FY23 from 3% in FY19 (FY22: 20%; FY21: 19%). The revenue contribution in 1QFY24 was 28%.

The exports were exceptionally down in FY23 and contributed only 7% to the revenue (FY22: 23%; FY21: 15%). However, the same have revived in 1QFY24 on the back of a pick-up in demand from the overseas market, resulting in an improvement in revenue contribution to 15% in 1QFY24. The alloy wheels and exports market remain key focus areas for the management being margin accretive. As a result of the ramp-up in sales from these segments, Ind-Ra expects the contribution from both the segments together to improve to 40-50% over the medium term. Thus, the alloy wheel and export segments remain important contributors to profitability.

Liquidity Indicator - Adequate: SSWL's free cash flow (FCF) declined to INR1,280 million in FY23 (FY22: INR1,592 million; FY21: INR34 million), although remained positive, despite the significant capex incurred in FY23. The net working capital cycle (creditors excluding LC acceptances) improved to 77 days in FY23 (FY22: 85 days; FY21: 125 days), primarily due to a yoy decrease in the blended receivable days as the company's sales to customers with a shorter credit period increased, along with a correction in its inventory holding. The company had unencumbered cash and bank balances of INR183 million at FYE23 and INR385 million at 1QFYE24.

However, Ind-Ra expects the FCF to turn negative in FY24, primarily due to the significant capex plan of INR2,250 million (FY23: INR1,367 million; FY22: INR1,691 million). Of the total estimated capex, 65%-70% will be towards alloy wheel plant expansion. Since majority of the capex has already been incurred by SSWL in the past years, the agency does not expect the company to incur any significant capex for at least next two-to-three years. The agency expects the FCF to turn positive by FY25 and will continue to monitor positive FCF generation in the forecasted years. The management also expects a cash pay-out of around INR1,400 million towards the AMW acquisition, which Ind-Ra has factored in for FY25. The capex and acquisition put together are likely to be funded partly through internal accruals and partly by incremental debt.

The company had sanctioned fund-based capital limits of INR3,000 million, which had an average peak utilisation of 78% during the 12 months ended September 2023. The average utilisation of its non-fund-based limits was 89% during the same period. The majority of SSWL's procurement is on an LC basis, leading to a high utilisation of its non-fund-based limits. SSWL has strong banking relations, which enables the company to easily tap the debt market, as and when required.

SSWL has term debt repayments of INR777 million in FY24 and INR958 million in FY25, and the agency believes the same will be met through internal accruals. Ind-Ra believes SSWL's liquidity to be adequate and derives cushion from the company's strong cash generating as well as fund-raising ability. On 6 September 2023, SSWL's promoter pledged shares reduced to 3.06% (31 March 2023: 13.88%; 31 March 2022: 19.5%, 31 March 2021: 45.0%, 31 March 2020: 49.9%) of the total paid up share capital of the company. The share pledging was basically towards the loans taken by the promoters to provide support for the capex incurred at one of the companies owned by the promoter group.

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 helps it cater to the 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 its 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 6.94% and 5.43%, respectively, at end-March 2023. SSWL has technology tie-ups with Ring Techs Co Ltd, Japan.

Diversified Revenue Base: Historically, CVs have dominated the company’s revenue base, contributing 35%-40% to its revenue. However, due to a downcycle in the CV segment, and the scale up of alloy wheel sales, PV became the largest contributor to revenue during FY21-1QFY24, with a share of 48% in 1QFY24 (FY23: 48%; FY22: 48%; FY21: 49%). The CV share picked up to 29% in 1QFY24, due to the industry-wide recovery (FY23: 31%; FY22: 26%; FY21: 20%). This was followed by tractors contributing 11% in 1QFY24 (FY23: 12%; FY22: 11%; FY21: 17%) and two/three-wheelers at 2% (2%; 2%; 3%). The company’s exports also saw a declining trend in FY23 and contributed 7% (FY22: 23%; FY21: 15%), however, improved to 15% in 1QFY24.

Healthy Share of Business: SSWL has a 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 a high share of business with domestic OEMs.

Continued Capex-Heavy Business: The steel/alloy wheel business is a capex-intensive business. SSWL has undertaken continuous capex totalling INR9,165 million over FY18-FY23, primarily to expand its manufacturing facilities, including the expansion of its alloy wheel plant. Any large incremental capex could expose the company to risks related to the delayed completion of the planned facilities. Furthermore, the auto industry is inherently cyclical in nature. As witnessed during FY20-FY21, the increase in facilities, coupled with the auto sector slowdown also led by the COVID-19 pandemic, especially in the CV segment, the capacity utilisation at SSWL's plants (excluding Mehsana) declined significantly, thus affecting its return ratios.

At end-June 2023, the company was operating at around 80% capacity in most of its existing plants, except CV. This necessitates SSWL to incur incremental capex towards capacity expansion to maintain its market share and be the preferred supplier for its customers. Ind-Ra takes comfort from the fact that the steel wheel rim capacity is likely to increase with the AMW acquisition, while alloy wheel expansion would continue in a phased manner at its Mehsana plant. However, any greenfield acquisition could delay the deleveraging exercise for the company. Ind-Ra will continue to monitor any significant increase in the capex, affecting the return ratios and deleveraging plans of the company.

Rating Sensitivities

Positive: A significant and sustained improvement in the revenue and profitability, maintaining increased proportion of higher margin businesses along with a reduction in the working capital cycle, maintaining a positive FCF while reducing the adjusted net leverage below 1.5x, all on a sustained basis, could lead to a positive rating action.

Negative: A decline in the revenue or profitability, a stretch in the working capital cycle, or a decline in the liquidity cushion, or any large debt-funded organic or inorganic capex, leading to the adjusted net leverage remaining above 2.0x, all on a sustained basis, 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 PVs, utility vehicles, tractors, trucks, two wheelers, among others.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Net revenue (INR million)	40,405	35,600
EBITDA (INR million)	4,428	4,528
EBITDA margin (%)	11.0	12.7
Interest coverage (x)	5.3	5.3
Adjusted net leverage (x)	2.3	2.5
Source: SSWL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook			
	Rating Type	Rated Limits (million)	Rating	18 July 2022	20 September 2021	9 March 2021	13 May 2020
Issuer rating	Long-term	-	WD	IND A+/Stable	IND A-/Positive	IND BBB+/Stable	IND BBB+/Rating Watch with Negative Implications
Fund-based working capital limits	Long-term/ Short-term	INR3,000	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1	IND A-/Positive/IND A2+	IND BBB+/Stable/IND A2	IND BBB+/Rating Watch with Negative Implications/IND A2/Rating Watch with Negative Implications
Long-term loan	Long-term	INR4,769	IND AA-/Stable	IND A+/Stable	IND A-/Positive	IND BBB+/Stable	IND BBB+/Rating Watch with Negative Implications

Non-fund-based working capital limits	Long-term/ Short-term	INR5,750	IND AA-/Stable/IND A1	IND A+/Stable/IND A1	IND A-/Positive/IND A2+	IND BBB+/Stable/IND A2	IND BBB+/Rating Watch with Negative Implications/IND A2/Rating Watch with Negative Implications

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

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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