

India Ratings Affirms Steel Strips Wheels's Bank Facilities at ‘IND AA-/Stable

Jan 02, 2025 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has affirmed Steel Strips Wheels Limited’s (SSWL) debt instruments’ ratings as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limits	-	-	-	INR3,000	IND AA-/Stable/IND A1+	Affirmed
Term loans	-	-	31 March 2030	INR4,679 (reduced from INR4,769)	IND AA-/Stable	Affirmed
Non-fund based working capital limits	-	-	-	INR5,750	IND AA-/Stable/IND A1+	Affirmed

Analytical Approach

Ind-Ra continues to fully consolidate SSWL and its wholly owned subsidiary, AMW Auto Component Limited (AMW), to arrive at the ratings.

Detailed Rationale of the Rating Action

The affirmation reflects a sustained improvement in SSWL’s revenue and credit metrics over FY20-FY24, a resilient operating profitability, rangebound EBITDA margins, a reduction in promoter’s shares pledge to nil as of September 2024 from 4.92% in September 2023 and an increased share of higher-margin business (alloy wheels) in the revenue, leading to a significant improvement in its business profile.

List of Key Rating Drivers

Strengths

- Strengthened business profile
- Sustained growth in revenue in FY24
- Credit metrics deteriorated during FY24-1HFY25, likely to improve in FY26
- Rangebound EBITDA margins
- Ramp-up in contribution from margin-accretive segments
- Locational advantage; strong customer relationships
- Diversified revenue base
- Healthy share in steel wheels business

Weaknesses

- Continued capex-heavy business

Detailed Description of Key Rating Drivers

Strengthened Business Profile: Following SSWL's capacity expansion over FY18-FY24, the company has become a leading supplier of alloy wheel rims in the country. The company's Mehsana (Gujarat) plant, which has a total facility size of 3.6 million units at FYE24, operated at capacity utilisation of above 80% during the year. SSWL's alloy wheel production capacity increased to 3.6 million wheels/annum in FY24 (FY23: 3 million; FY22: 3 million) and is likely to increase further to 4.8 million units by the end of FY25. The capacity is likely to grow further to 5.3-5.4 million units by 1HFY26, making it the largest alloy wheel manufacturer in the country. SSWL previously catered mainly to the domestic market, but with its recent capacity expansion, it has started catering to demand in the exports market as well. Of the total estimated capacity, around 75% would cater to the domestic demand and the remaining to the exports markets.

Furthermore, the acquisition of AMW was completed in FY24, leading to an additional steel wheel capacity of 6-7 million per annum, totaling 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. As of September 2024, SSWL had not started production out of AMW's plant.

Sustained Growth in Revenue in FY24: SSWL's revenue continued to increase in FY24, rising to INR43,571 million (FY23: INR40,405 million; FY22: INR35,600 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). However, the favourable impact of these factors was partly offset by lower price realisation due to the pass-through of softened raw material prices to customers. During 1HFY25, SSWL booked revenue of around INR21,204 million. Ind-Ra expects the revenue to increase by 5%-6% yoy in FY25, as it would be the first full year of operations of the expanded alloy wheel facilities, and the company's performance is likely to be better in the second half of FY25 compared to the first half, supported by likely recovery in certain industry segments. The revenue is also likely to benefit from the increased capacities in aluminium knuckles over the medium term.

Credit Metrics Deteriorated During FY24-1HFY25: Despite largely stable EBITDA levels (1HFY25: INR2,340 million; 1HFY24: INR2,374 million; FY24: INR4,640 million; FY23: INR4,428 million), SSWL's adjusted net leverage (net debt adjusted for letter of credit (LC) acceptances/EBITDA) deteriorated to 3.1x in FY24 (FY23: 2.3x), and stood at 3.0x in 1HFY25, due to a rise in the net adjusted debt. The company's reported gross debt remained high at INR9,262 million at 1HFYE25 (FYE24: INR10,479 million, FYE23: INR6,383 million; FYE22: INR7,778 million). Adjusting for LC acceptances, the gross debt was around INR14,056 million at 1HFYE25 (FYE24: INR14,608 million; FYE23: INR10,451 million; FY22: INR11,753 million). The debt increased because of the high debt availed for the capacity expansion of the alloy wheel plant in Mehsana, cash outgo towards the acquisition of AMW's assets during FY24, the company's foray into the knuckles business, and the general capex undertaken towards all the other plants. The total outside liabilities (gross debt + creditors)/EBITDA increased to 3.6x in FY24 (FY23: 3.0x; FY22: 3.2x; FY21: 6.6x).

While the capex for the incremental capacities has started, the peak revenue and EBITDA are likely to be generated only between end-FY26 to FY27, and hence, the net leverage might remain elevated until then. Ind-Ra expects the net adjusted leverage to range between 2.5x-2.7x in FY25, and it is likely to drop below 2.5x only in FY26. SSWL's interest coverage (EBITDA/interest expense) deteriorated to 4.5x in FY24 (FY23: 5.3x; FY22: 5.3x; FY21: 2.4x), against Ind-Ra's expectation of the same remaining above 5.0x, and further to 3.8x in 1HFY25.

Rangebound EBITDA Margins: SSWL's EBITDA margin ranged between 11%-13% over FY18-FY23 (FY23: 11%; FY22: 12.7%; FY21: 11.6%), but it fell to 10.6% in FY24 owing to higher employee costs, as the company hired new staff for the aluminium plant, and an increase in its research and development spend to improve the quality and reduce weight of aluminium wheels. Although the price of steel softened during FY24, aluminium prices (key raw materials) firmed up during the year. However, the company has been able to pass on the price increases to OEMs with a lag of around three months, thereby protecting its margins to an extent. Ind-Ra expects the EBITDA margin to range between 11% - 11.5% during FY25-FY26, though it would remain vulnerable subject to the fluctuations in raw material prices. SSWL's return on capital employed also remained strong at 20.3% in FY24 (FY23: 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 28% in FY24 (FY23:

3%; FY22: 20%; FY21: 19%), and further to 31% in 1HFY25.

The exports picked up in FY24 and contributed 15% to the revenue during the year (FY23:7%; FY22: 23%; FY21: 15%). The share of exports dipped to 13% in 1HFY25 because of a slow-down in demand from overseas markets. The alloy wheels and exports market remain key focus areas for the management as these are 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 from 38% in FY23.

Locational Advantage; Strong Customer Relationships: SSWL's Chennai plant is located close to the port as well as that to the manufacturing plant of Renault Nissan Automotive India Private Limited and Hyundai Motors Limited, which enables the company to keep its freight costs 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 6.93% and 5.42%, respectively, at end-March 2024.

Diversified Revenue Base: Prior to FY21, CVs had dominated the company's revenue base, contributing 35%-40% to its revenue. However, PV became the largest contributor to revenue over FY21-1HFY25, with a share of 50 %in 1HFY25 (FY24: 48%; FY23: 48%; FY22: 48%; FY21: 49%), due to a downcycle in the CV segment, and the scale up of alloy wheel sales. The share of CVs stood at 26% in 1HFY25 (FY24: 31%; FY23: 31%; FY22: 26%; FY21: 20%). This was followed by tractors, contributing 13% in 1HFY25 (FY24: 10%; FY23: 12%; FY22: 11%; FY21: 17%), and two/three-wheelers at 3% (2%; 2%; 2%; 3%). Furthermore, the company's exports increased by 2x in FY24 and contributed 15% to the total revenue during the year (FY23:7%; FY22: 23%; FY21: 15%).

Healthy Share in Steel Wheels Business: SSWL has a healthy market position in the steel wheels segment, with a share of 37% in PVs, 61% in medium and heavy commercial vehicles, 42% in tractors, 70% in off-the-road segment and 30% in two and three-wheelers. The company also benefits from a high share of business with domestic OEMs.

Continued Capex-Heavy Business: The steel/alloy wheel business is a capex-intensive business. SSWL undertook continuous capex totalling INR12,994 million over FY18-FY24, 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, caused a significant decline in the capacity utilisation at SSWL's plants (excluding Mehsana), thus affecting its return ratios.

At end-FY24, the company was operating at above 80% capacity in most of its existing plants. Ind-Ra takes comfort from the fact that the steel wheel rim capacity has increased with the acquisition of AMW, while alloy wheel expansion would continue in a phased manner at SSWL's 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 that could impact the return ratios and deleveraging plans of the company.

Liquidity

Adequate: SSWL's free cash flow turned negative at INR2,938 million in FY24 (FY23: INR1,280 million; FY22: INR1,592.3 million), because of the large capex undertaken during the year as well as unfavorable changes in working capital. The net working capital cycle (creditors excluding LC acceptances) worsened slightly to 85 days in FY24 (FY23: 77 days; FY22: 85 days), primarily due to a yoy decrease in payable days, and a slight rise in receivable days on account of a higher share of export sales, which typically take longer to realise cash. The inventory holding period reduced to 65 days in FY24 (FY23: 74 days; FY22: 76 days) in line with the reduction in input prices. The company had unencumbered cash and bank balances of INR403 million at FYE24 (FYE23: INR183 million) and INR76.5 million at 1HFYE25. The free cash flow turned positive again at INR844.7 million in 1HFY25.

Of the total capex of INR3,829 million in FY24 (FY23: INR1,367 million; FY22: INR1,691 million), 58% was towards the alloy wheel plant expansion, 13% towards the setting up of the knuckle plant, and the remainder towards general maintenance and automation. There was also a cash pay-out of around INR1,380 million towards the AMW acquisition in 4QFY24. The company might incur capex of around INR2,160 million in FY25 and INR1,350 capex in FY26, towards alloy wheel and knuckles expansion. The agency expects the free cash flow to turn positive by FY25; this will be a monitorable for the ratings.

The company’s average peak utilisation of its sanctioned fund-based capital limits of INR3,000 million was 89% during the 12 months ended October 2024. The average utilisation of its non-fund-based limits was 90% 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 obligations of INR1,036 million in FY25 and INR 1,109 million in FY26, and the agency believes the same will be met through internal accruals. Ind-Ra considers SSWL's liquidity to be adequate and derives comfort from the company's strong cash generating as well as fund-raising ability. As of September 2024, SSWL's promoter pledged shares reduced to nil (31 March 2024: Nil; 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.

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 free cash flow 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 2.5x, all on a sustained basis, could lead to a negative rating action.

About the Company

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.

Key Financial Indicators

Particulars	FY24	FY23
Net revenue (INR million)	43,571	40,405
EBITDA (INR million)	4,640	4,428
EBITDA margin (%)	10.60	11.0
Interest coverage (x)	4.5	5.3
Adjusted net leverage (x)	3.1	2.3
Source: SSWL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook		
				13 October 2023	18 July 2022	20 September 2021
Issuer rating	Long-Term	-	-	WD	IND A+/Stable	IND A-/Positive
Fund-based working capital limit	Long-term/Short-term	INR3,000	IND AA-/Stable /IND A1+	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1	IND A-/Positive/IND A2+
Non-fund-based working capital limit	Long-term/Short-term	INR5,750	IND AA-/Stable /IND A1+	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1	IND A-/Positive/IND A2+
Term loan	Long-term	INR4,679	IND AA-/Stable	IND AA-/Stable	IND A+/Stable	IND A-/Positive

Bank wise Facilities Details

Complexity Level of the Instruments

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

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

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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