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India Ratings Upgrades Steel Strips Wheels to 'IND A+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded Steel Strips Wheels Limited's (SSWL's) Long-Term Issuer rating to 'IND A+' from 'IND A-'. 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	-	-	-	INR3,000	IND A+/Stable/IND A1	Upgraded
Term loans	-	-	FY28	INR3,743 (reduced from INR5,400)	IND A+/Stable	Upgraded
Non-fund based working capital limits	-	-	-	INR5,750	IND A+/Stable /IND A1	Upgraded

The upgrade follows a substantial improvement in SSWL's credit metrics on account of a solid improvement in the operating performance, and an increased share of higher-margin business (alloy + exports) in the revenue, leading to a significant improvement in business profile.

Key Rating Drivers

Significant Deleveraging in FY22: SSWL's adjusted net leverage (net debt adjusted for letter of credit (LC) acceptances/EBITDA) improved to 2.5x in FY22 (FY21: 5.5x; FY20: 6.3x), primarily supported by healthy EBITDA generation (FY22: INR4,528 million; FY21: INR2,038 million). The company's reported gross debt reduced to INR7,778 million in FY22 (FY21: INR9,373 million) as it used the free cash flow generated to prepay some of its debt. However, on adjusting for LC acceptances, it remained at around INR11,753 million (FY21: INR11,567 million), which was mainly due to higher purchases to support increased revenue.

The agency expects the company's net adjusted leverage to remain at 2.25x-2.5x in FY23, on the back of strong profit generation, although partially offset by the expansion plans over this period. The company's leverage could be around 2.5x if the acquisition of AMW Autocomponent Limited (AMW, which will increase its capacities in steel wheel rims) materialises during FY23. SSWL's interest coverage (EBITDA/interest expense) rose to 5.3x in FY22 (FY21: 2.4x) due to improved operating profitability and is likely to remain around similar level in FY23.

Operating Performance Improved in FY22: SSWL's FY22 revenue almost doubled to INR35,600 million (FY21: INR17,494 million), on the back of a demand recovery across all domestic auto segments, an increase in exports offtake by over 3.0x, an expansion of the alloy wheel plant leading to higher capacity availability, the company's ability to add customers and increase/maintain a strong share of business with the original equipment manufacturers (OEMs). Furthermore, higher realisation, due to the pass through of increased raw material prices to customers, added to revenue growth. Ind-Ra expects the revenue to increase 4%-8% yoy in FY23, on account the full-year utilisation of expanded alloy wheel facilities and a recovery in the domestic commercial vehicle (CV) cycle; however, the revenue increase will be somewhat offset by the company's relatively lower exports and the likely reduction in commodity prices towards 2HFY23, affecting sales realisation. Ind-Ra expects meaningful revenues from the AMW plant to start flowing in from FY24 only.

The company's EBITDA margins also expanded to 12.7% in FY22 (FY21: 11.6%) due to the higher sales from the 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 firmed up during the year, 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. Ind-Ra expects some moderation in EBITDA margins to 11%-11.5% due to relatively lower exports. SSWL's return on capital employed also improved significantly to 22.8% (FY21: 8.7%) and is likely to remain more than 20% in the near-to-medium term.

Strengthened Business Profile: With the expansion undertaken by the company over FY18-FY22, it is now a leading supplier of alloy wheel rims in the country, through its plant in Mehasana (Gujarat), with a total facility size of 3 million units at FYE22, which is operating at more than 80% utilisation levels. The company is mainly catering 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. The company's capacity is likely to increase further to 4 million units by FYE23, making it the largest alloy wheel manufacturer in the country.

Ramp-up in Contribution from Margin-accretive Segments: The company has a strong share of business in the alloy wheel segment in the models it caters to 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 the FY22 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 FY22, at a time when the domestic OEM demand was adversely affected. Exports contributed to around 23% of the revenue in FY22 (FY21: 15%; FY20: 14%). The ramp-up in sales from these segments led to the rise in the EBITDA margin in FY22 despite the significant firming up of raw material prices. Though the exports could decline on a yoy basis in FY23, Ind-Ra expects the contribution from both the segments together to improve to 50% over the medium term. Thus, the alloy wheel and export segments remain important contributors to profitability.

Liquidity Indicator - Adequate: Despite an increase in the capex on a yoy basis, SSWL's free cash flows (FCF) increased sharply to INR1,592 million in FY22 (FY21: INR34 million) due to a significant improvement in its profitability. The company's net working capital cycle (creditors exclude LC acceptances) improved to 85 days in FY22 (FY21: 85 days), primarily due to a correction in its inventory holding, which had increased significantly during FY21, and a yoy decrease in the blended receivable days as the company's sales to customers with a shorter credit period increased. The company had unencumbered cash and bank balances of INR232 million at FYE22.

Ind-Ra expects SSWL's FCF to remain positive in FY23, primarily due to its lower yoy capex plan of INR1,000 million in FY23 (FY22: INR1,691 million, FY21: INR928 million), largely towards alloy wheel plant expansion. The agency will continue to monitor positive FCF generation in the forecasted years. The management also expects a cash pay-out of sub-INR1,500 million towards the AMW acquisition which Ind-Ra has factored in for 2HFY23. 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, with an average peak utilisation of 78% during the 12 months ended June 2022. The average utilisation under its non-fund-based limits was 90%. The majority of SSWL's procurement is on an LC basis, leading to high utilisation under its non-fund-based limits.

SSWL has term debt repayments of INR951 million in FY23 and INR901 million in FY24, and the agency believes it will be met through internal accruals. On 10 June 2022, SSWL’s promoter pledged shares reduced to 17.6% (March 2022: 19.5%, March 2021: 45.0%, March 2020: 49.9%). 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. 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 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 6.97% and 5.45%, respectively, at end-March 2022. 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-FY22, with a share of 48% in FY22 (FY21: 49%; FY20: 38%). The CV share picked up to 26% in FY22, due to the industry-wide recovery (FY21: 20%, FY20: 27%). This was followed by tractors contributing 11% in FY22 (FY21: 17%, FY20: 19%) and two/three-wheelers at 2% (3%; 6%). The company’s exports also saw an increasing trend in FY22 and contributed 23% (FY21: 15%, FY20: 14%).

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 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 INR7,798 million over FY18-FY22 primarily to expand its manufacturing facilities, including the expansion of its alloy wheel plant. Any large incremental capex could expose the company to the risk related to the delayed completion of the planned facilities. Furthermore, the auto industry is inherently cyclical in nature and as was seen during FY20-FY21, the increase in facilities, coupled with the auto sector slowdown (also led by the pandemic), especially in the CV segment, the capacity utilisation at SSWL's plants (excluding Mehsana) declined significantly, thus affecting company’s return ratios.

At end-June 2022, the company was operating at around 80% utilisation levels 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 customer. 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 capex, affecting the return ratios and deleveraging plans of the company.

Rating Sensitivities

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

Negative: A 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 being above 2.5x, 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	FY22	FY21
Net revenue (INR million)	35,600	17,494
EBITDA (INR million)	4,528	2,038
EBITDA margin (%)	12.7	11.6
Interest coverage (x)	5.3	2.4
Adjusted net leverage (x)	2.5	5.5
Source: SSWL, Ind-Ra		

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook				
	Rating Type	Rated Limits (million)	Rating	20 September 2021	9 March 2021	13 May 2020	21 January 2020	7 August 2019
Issuer rating	Long-term	-	IND A+/Stable	IND A-/Positive	IND BBB+/Stable	IND BBB+/RWN	IND A-/Stable	IND A-/Positive
Fund-based working capital limits	Long-term/ Short-term	INR3,000	IND A+/Stable /IND A1	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+
Long-term loan	Long-term	INR3,743	IND A+/Stable	IND A-/Positive	IND BBB+/Stable	IND BBB+/RWN	IND A-/Stable	IND A-/Positive
Non-fund-based working capital limits	Long-term/ Short-term	INR5,750	IND A+/Stable /IND A1	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+

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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