September 07, 2017

Minda Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loan	9.60 (reduced from 20.17)	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Fund Based Limits – Cash Credit	98.50	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Non-Fund Based Limits	37.00 (enhanced from 27.00)	[ICRA]A1+; Reaffirmed
Unallocated Limits	11.90 (enhanced from 11.33)	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Total Bank Loan Facilities	**157.00**	
Commercial Paper Programme	**30.00**	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus) and reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 157.00-crore[1] bank facilities of Minda Industries Limited ("MIL" or "the company")[2]. The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ on the Rs. 30.00 crore commercial paper programme of the company.

Rationale

The rating upgrade takes into account the strong improvement in the operating performance and financial risk profile of MIL during FY2017, which along with the equity infusion of Rs. 300 crore through the Qualified Institutional Placement (QIP), strengthened the overall credit profile of the company during the year. Additionally, the company continues to strengthen its market position in various product segments, enter new product segments and diversify its revenues, which has been imparting strength to its overall business profile over recent years.

The ratings continue to draw comfort from MIL's strong market position in the various product segments that it has presence in, as the largest player in the domestic automotive switch market, the third largest player in the domestic automotive lighting market and the second largest player globally in the automotive horns market. Its market position in these product segments have been further augmented by acquisitions carried out in the lighting and acoustics divisions in the recent years. MIL also benefits from a well-diversified revenue profile, with 33% of the consolidated revenues being derived from the switch division, 25% from lighting, 18% from horns, 11% from alloy wheels and aluminium die-cast products and the rest from other products like air filters, blow-moulded products, fuel caps, batteries, rubber hoses.

During FY2017, MIL raised fresh equity aggregating to Rs. 300.0 crore, which is being utilised towards meeting capital expenditure requirements in the standalone entity, investments in subsidiaries and joint ventures towards meeting their capex and loss-funding requirements, and completion of the consolidation

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

exercise within the Group. Supported by the fund inflow from the QIP, the net worth of MIL reported healthy expansion during the year, resulting in significant improvement in its capital structure. The rating decision factors in positively the company's success in raising funds from the market and its focus on meeting its cash outflow requirements for consolidation, capex and loss-funding without excessive leveraging of its balance sheet.

MIL reported strong improvement in its operating performance and financial risk profile with strong scale up in revenues and improvement in profitability indicators and credit metrics during FY2017. At the standalone level, revenue growth continued to be supported by MIL's improving market position and share of business with its key client Original Equipment Manufacturers (OEMs) in the switches, lighting and acoustics divisions, resulting in the operating income expanding from Rs. 1,469.9 crore in FY2016 to Rs. 1,639.4 crore in FY2017.

With multiple factors supporting its growth, MIL's consolidated revenues grew by a robust 39% during FY2017, and its profitability indicators also witnessed improvement during the period. In addition to the acquisition of Rinder India Private Limited (Rinder) during the year, which contributed Rs. 323.5 crore to the top-line, and the consolidation of Roki Minda for 6 months, there was also strong organic growth during the year, with many entities like Minda Kosei, Clarton Horns, Minda Kyoraku and MIL (Standalone) reporting healthy scale up in revenues during the year. Ramp-up at the manufacturing facilities of these companies and better absorption of fixed overheads also supported improvement in their profitability indicators, which coupled with consolidation of higher margin entities like Rinder, YA Auto and Roki Minda, supported improvement in consolidated profitability indicators of the company. Accordingly, the operating profitability of MIL expanded to 10.9% during FY2017 from 9.4% reported during FY2016.

ICRA also takes note of the consolidation exercise within the Group, wherein MIL has been acquiring majority stake in entities in which it previously held minority stake, or were being held by group companies. During Phase I of consolidation, MIL acquired majority stake in a few entities, which in addition to top-line growth, also supported expansion of its product portfolio to include air filters, carbon canisters and rubber hoses, thereby further strengthening its business profile. Phase II of the consolidation exercise planned over the medium term would further augment this, with consolidation of Mindarika expected to increase the company's segment exposure towards PV segment and reduce its dependence on the two-wheeler segment for revenues. However, the cash outflow requirements from MIL over the near term would also remain sizeable, though the same is expected to be funded through the proceeds from the QIP, thereby, minimising incremental external financing requirements for the company. Nonetheless, ICRA would continue to monitor developments with respect to MIL's ongoing consolidation exercise and its impact on consolidated credit profile of MIL.

MIL's expansion into various product segments has been further supported by the technical arrangements it has in place with various global automotive majors. The company entered into joint venture agreements with multiple Japanese auto component manufacturers such as Tokai Rika, Emer, Toyoda Gosei, Kyoraku, Kosei and Torica which has helped the company expand its product presence and offer a comprehensive range of product offerings to its client OEMs. While many of these JVs have reported healthy ramp up in sales and turn around in operations during the previous year, supported by committed business off-take from some large customers, few of them continue to be in nascent stages of operation, and would require funding support from MIL for meeting their capex and debt servicing requirements over the medium term.

Furthermore, the company also entered into three new JV agreements during FY2017, which are expected to require some funding support from MIL for capex and product development over the near term. ICRA would continue to monitor the performance of these entities and the cash outflow requirements from MIL for supporting these entities, and the impact of the same on the financial risk profile of MIL.

The ratings continue to be constrained by the high concentration of MIL's revenues on the two-wheeler business, with 61% of the FY2017 consolidated revenues being derived from the said segment. However, this has reduced from 64% reported during FY2016, and is expected to reduce further going forward, with the revenue contribution from entities like Minda Kosei, Minda TG and Mindarika, which derive the major proportion of revenues from the PV segment, set to increase going forward. Furthermore, the company has been actively engaged in diversifying its segment exposure, and has been focussing on increasing its presence with domestic PV OEMs, which is expected to reflect in the overall segment exposure of the company over the medium term.

ICRA also takes note of the sizeable investment carried out by MIL in the alloy wheel segment through Minda Kosei, in which MIL holds 70% stake. In addition to the Greenfield facility set up for Minda Kosei in Bawal with a total project size of Rs. 300 crore, the company is in the process of setting up another new plant in Gujarat. The profitability of the new plant would be subject to the level of scalability in the gestation period, inherent project execution risks in the initial phase and any possibility of the upliftment of the Anti-Dumping Duty on imported Chinese Wheels. Furthermore, with the increasing competition from new players, Minda Kosei is exposed to business risks, though mitigated to some extent by the confirmed business orders from MSIL. Given the high capital intensity in the business, any shortfalls in cash flows may require support from the JV partners in meeting funding requirements, and hence, timely execution and ramp up of the project would remain critical.

Key rating drivers

Credit strengths

- **Diversified product portfolio with presence across various products in the automotive segment** – MIL has presence across multiple products in the automotive segment including switches, lighting systems, acoustic systems and fuel kits on a standalone basis and alloy wheels, rubber hoses, speakers, air filters, aluminum die-casting and blow-molded ducts on a consolidated basis.

- **Strong market position in the major product segments that it has presence in** – MIL is the largest player in the domestic passenger vehicle (PV) and two-wheeler (2W) switch market, one of the top three players in the domestic PV and 2W lighting systems and among the leading players globally in the international horn market.

- **Significant improvement in capital structure through proceeds from QIP of Rs. 300 crore during FY2017 –** MIL raised funds of Rs. 300 crore through a Qualified Institutional Placement in FY2017, which has helped reduce overall gearing levels through healthy expansion of its net worth base. Furthermore, these funds would be deployed towards meeting its investment requirements in various group companies, and its standalone capex requirements, thereby minimising its reliance on external borrowings for the same.

- **Consolidation initiatives within the group, wherein MIL has been acquiring majority stake in some promoter-held companies and associate companies of MIL augur well for revenue growth and diversification over the longer term-** Over the past two years, MIL has been focussing on consolidating the entities within the Group, increasing stake in group companies. Phase I of the consolidation has been successfully completed, and Phase II is ongoing which includes, in addition to others, the acquisition of Mindarika, a leading player in the switch segment for PVs in India.

- **Strong and long-standing technical arrangements with key global players provides access to technical know-how and established customer base and supports MIL in establishing its presence in various automotive product segments –** MIL has set up technological partnerships over the years with multiple large automotive players like Tokai Rika, Emer, Toyoda Gosei, Kyoraku, Kosei and Torica which has helped the company enter into new product segments and establish relationships with Indian subsidiaries of global automotive OEMs that these companies supply to globally. Furthermore, MIL has also entered into three new joint venture agreements during FY2017 with Katolec Corporation, Onkyo and Tung Thi Electronics. In this respect, the strong track record of successful JVs with foreign players provides comfort regarding turnaround of the new JVs.

- **Steady improvement in operating performance over the years with consistent scale up in revenues aided by organic growth, as well as consolidation and inorganic growth initiatives of MIL –** On a consolidated level, MIL has reported steady improvement in its operating performance over recent years supported by healthy revenue scale up and improvement in profitability in MIL (Standalone) as well as various consolidated entities.

- **Diversified customer profile with strong relationships and stable share of business with many automotive majors –** While MIL had primarily been a two-wheeler OEM supplier since inception, over recent years, its presence with passenger vehicle OEMs has improved supported by new product segments like alloy wheels entered, and consolidation of entities which cater to the PV segment. Accordingly, MIL has adequately diversified its customer profile, with Maruti Suzuki India Limited, Bajaj Auto Limited and Honda Motorcycles & Scooters India Limited, together contributing about 40% of consolidated revenues.

Credit weaknesses

- **Financial support required in some subsidiaries, associates and new JVs whose operations are in nascent stages, and consolidation initiatives within the Group would require cash outflow from MIL over the medium term** – While most of the companies within the Group are self-sustaining in terms of cash flows, and many of the newly incorporated companies like Minda Kosei scaled-up on the back of confirmed off-take from its customers, few companies like Minda TG Rubber and the new joint ventures are still in the nascent stages of operation and would require funding support from MIL to meet its capex and debt servicing requirements. Furthermore, MIL is in the midst of a consolidation exercise within the Group, whereby it has been acquiring majority stake in few companies so as to include these in the consolidated group profile. Accordingly, there have been significant cash outflows from MIL for acquiring the stake in these companies, and further cash outflows of Rs. 160 crore is expected for Phase II of consolidation over the near term.

- **High dependence on two-wheeler segment for revenues, with 61% of the FY2017 consolidated revenues being derived from the segment -** The company derives majority of its business from Two Wheeler segment (61%) followed by Four Wheelers (39%) – this exposes the company to segment-concentration risk to some extent, although the share of the former has reduced from 64% reported during FY2016 to 54% in Q1 FY2018 supported by increasing share of alloy wheels business and with the proposed acquisition of Minda Rika (in FY2018) among others, the share of business from PV OEMs is set to increase going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[Corporate Credit Rating Methodology]
[Rating Methodology for Auto Component Manufacturers]

About the company:

Minda Industries Limited (MIL), the flagship company of the N.K. Minda Group, is a one of the most diversified auto component manufacturer in India with a presence across multiple product segments such as switches, lighting, horns, fuel cap, auto-gas and batteries. Set up in 1958 as a partnership firm, MIL was converted into a public limited company in 1992. Apart from switches and lighting that contribute the majority of the company's standalone revenues, its product portfolio also includes automotive horns, batteries, fuel caps and CNG/LPG kits. The product portfolio further expands into aluminium die-casting, alloy wheels, blow moulded ducts, rubber hoses, alternate fuel kits, etc., on a consolidated level. On a consolidated level, MIL has 32 manufacturing facilities across Haryana, Maharashtra, Tamil Nadu, and Uttarakhand, among others.

In April 2013, MIL acquired Clarton Horn, a Spanish horn manufacturer, making it a global player in the horns market for passenger vehicles (PVs). MIL's other major subsidiaries include Minda Kosei, which manufactures alloy wheels for PV OEMs, PT Minda and Sam Global (engaged in manufacturing switches and lights, based out of Indonesia and Vietnam, respectively), Minda Distribution and Services (trading wing of the group) and MJ Casting Limited (manufactures aluminium die-casting products for two-wheeler OEMs and Tier I suppliers). To expand its automotive lighting business, MIL acquired 100% stake in Rinder India Private Limited, along with Rinder Riduco, S.A.S. Columbia (50%) and Light & Systems Technical Center (part of the Spanish Rinder Group), for Euro 7.2 million equity consideration during FY2017. In addition, the company also increased its stake in Minda TG Rubber Pvt. Ltd. (manufactures brake and fuel hoses), in Kosei Minda Limited (manufactures alloy wheels) and Roki Minda Company Private Limited (manufactures air intake systems and carbon canisters) during the year.

In June 2016, MIL's joint venture with Panasonic was terminated as the former sold its global lead battery business to a Japanese company. Post this, MIL hived off its two-wheeler battery business from the standalone entity to Minda Storage Batteries Limited. In August 2016, the company acquired 51% stake in YA Auto (partnership firm) for a consideration of Rs. 1.5 crore from a third party. Additionally, it has also announced three new joint ventures during FY2017, with Katolec (Japan), Tung Thi Electronic (Taiwan) and Onkyo (Japan) for the manufacturing of printed circuit boards, driving assistance systems and speakers respectively.

Key Financial Indicators (Audited)

	Standalone		Consolidated	
	FY2016	FY2017	FY2016	FY2017
Operating Income (Rs. crore)	1,469.9	1,639.4	2,527.3	3,505.0
Concern Share (Rs. crore)	79.4	94.8	111.1	168.1
OPBDIT/ OI (%)	9.6%	9.5%	9.4%	10.9%
RoCE (%)	21.3%	17.4%	23.0%	22.2%
Total Debt/ TNW (times)	0.3	0.2	0.7	0.5
Total Debt/ OPBDIT (times)	0.8	1.2	1.6	1.4
Interest coverage (times)	13.8	11.2	9.3	9.7
NWC/ OI (%)	7.3%	4.2%	8.6%	6.2%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

<table>
<tr><th rowspan="3">S. No.</th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2018)</th><th colspan="5">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as on Mar 31, 2017 (Rs Crore)</th><th>Date & Rating</th><th colspan="2">Date & Rating in FY2017</th><th colspan="2">Date & Rating in FY2016</th><th>Date & Rating in FY2015</th></tr>
<tr><th>Sep 2017</th><th>Oct 2016</th><th>Aug 2016</th><th>Mar 2016</th><th>Aug 2015</th><th>Nov 2014</th></tr>
<tr><td>1</td><td>Term Loan</td><td>Long Term</td><td>9.60</td><td>9.60</td><td>[ICRA] AA (Stable)</td><td>[ICRA] AA- (Stable)</td><td>[ICRA] AA- (Stable)</td><td>[ICRA] A+&</td><td>[ICRA] A+ (Stable)</td><td>[ICRA] A (Stable)</td></tr>
<tr><td>2</td><td>Cash Credit</td><td>Long Term</td><td>98.50</td><td>75.23</td><td>[ICRA] AA (Stable)</td><td>[ICRA] AA- (Stable)</td><td>[ICRA] AA- (Stable)</td><td>[ICRA] A+&</td><td>[ICRA] A+ (Stable)</td><td>[ICRA] A (Stable)</td></tr>
<tr><td>3</td><td>Non Fund Based</td><td>Short Term</td><td>37.00</td><td>-</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+&</td><td>[ICRA] A1+</td><td>[ICRA] A1</td></tr>
<tr><td>4</td><td>Unallocated</td><td>Long Term</td><td>11.90</td><td>-</td><td>[ICRA] AA (Stable)</td><td>[ICRA] AA- (Stable)</td><td>[ICRA] AA- (Stable)</td><td>[ICRA] A+&</td><td>[ICRA] A+ (Stable)</td><td>[ICRA] A (Stable)</td></tr>
<tr><td>5</td><td>Commercial paper</td><td>Short Term</td><td>30.00</td><td>0.00</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>-</td><td></td><td></td><td></td></tr>
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&On Rating Watch with Developing Implications

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	-	Linked to Bank Base Rate	FY2020	9.60	[ICRA]AA (Stable)
-	Cash Credit	-	-	NA	98.50	[ICRA]AA (Stable)
-	Non Fund Based Limits	-	-	NA	37.00	[ICRA]A1+
-	Unallocated	-	-	-	11.90	[ICRA]AA (Stable)
-	Commercial Paper*	-	-	90 days	30.00	[ICRA]A1+

Source: The company
*Not placed by company currently

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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