ICRA

Minda Industries Limited

November 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	6.50	91.10	[ICRA]AA (Stable); Assigned/Outstanding
Cash Credit	98.50	98.50	[ICRA]AA (Stable); Outstanding
Non Fund Based Limits	37.00	37.00	[ICRA]A1+; Outstanding
Unallocated	15.00	23.40	[ICRA]AA (Stable); Assigned/Outstanding
Total Bank Lines	**157.00**	**250.00**	
Commercial Paper	30.00	30.00	[ICRA]A1+; Outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]AA (pronounced ICRA double A) to the enhanced limits of Rs. 93-crore[1] bank facilities Minda Industries Limited (MIL)[2]. ICRA has a long-term rating outstanding of [ICRA]AA (pronounced ICRA double A) and a short-term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 157 crore bank facilities of MIL. ICRA also a rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 30.00-crore commercial paper programme of the company. The outlook for the long-term rating is Stable.

Rationale

The rating reaffirmation takes into consideration the company's strong business profile as one of the leading domestic automotive component manufacturers and its strong financial risk profile characterised by healthy profitability and credit metrics. Despite the ongoing investments in various entities and the consolidation exercise within the Group, which is likely to be funded through debt, ICRA expects the company to maintain its credit metrics.

MIL's business profile is characterised by healthy diversification across products, automotive segments and customers, with a strong market position in various product categories. On a consolidated basis, the company derives 35% of its revenues from automotive switches, 26% from lighting and 16% each from horns and aluminium die-cast products (including alloy wheels), while batteries, blow-moulded components, rubber hoses and fuel caps constitute the rest. Product offerings further expand to air bags, infotainment systems, air filters and electronic products through joint venture (JV) agreements in place.

In addition to the healthy product diversification, the ratings derive comfort from the strong market position of MIL in the various product categories present in. In the domestic automotive market, the company is positioned as the largest player in switches (both in passenger vehicles or PV and two wheelers or 2W) and horns in terms of market presence and in PV alloy wheels in terms of installed capacity, and the third largest player in lighting products. MIL's established

[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*

relationship with major domestic automotive original equipment manufacturers (OEMs) and healthy share of business with them in these products offers revenue visibility going forward.

MIL's presence across various product segments has been further supported by its strong JV partnerships and technical arrangements with various global automotive suppliers. Over the years, it has entered into JV agreements with multiple auto-component manufacturers, which has helped the company to expand its product presence and offer a comprehensive range of product offerings to its client OEMs. In addition to the technological capabilities that these partnerships have brought to the table, the foreign parentage has also helped the JVs secure business from the Indian subsidiaries of global OEMs, ensuring their speedy ramp-up and operational turnaround.

Although most of these entities are self-sustaining in nature supported by committed business off-take by key customers, a few of these JVs, especially those in nascent stages of operations like Minda TG, Minda TTE, Minda Onkyo and Minda Katolec, would require funding support from MIL for their capital expenditure (in line with its investment plans), product development and debt servicing requirements over the near term. ICRA would continue to monitor the performance of these entities and MIL's cash outflow for supporting them, and the impact of the same on the financial risk profile of MIL.

Over the recent years, MIL has reported steady strengthening of its financial risk profile, with healthy revenue growth, expansion in its operating profit margins and improvement in credit metrics. The revenue growth has been partially supported by the ongoing consolidation exercise within the Group and inorganic growth pursued by the company. Besides, the organic growth across various entities has also been healthy, underpinned by the expanding business initiatives with client OEMs. With operations ramping up across manufacturing facilities in various entities resulting in operating leverage benefits and increasing revenue contribution from higher-margin entities like Minda Kosei, Minda Kyoraku and Mindarika, MIL's consolidated OPM expanded impressively to 12.1% in FY2018 from 4.6% in FY2014. Consequently, its credit metrics have also strengthened, despite an increase in debt levels.

In addition to the fund outflow from MIL for meeting the capex and operational requirements across JVs like Minda Kosei, Minda TTE, Minda Onkyo and Minda Katolec, ICRA also expects sizeable outflow from MIL towards the ongoing consolidation exercise within the Group and inorganic growth. In line with the consolidation exercise being undertaken, MIL has been acquiring majority stake in entities in which it previously held minority stake or were being held by Group companies. Although the exercise has been nearly completed, ICRA expects a fund outflow of approximately Rs. 250 crore over the near term towards the remaining few entities in the Group left to be consolidated. Additionally, the company is also involved in inorganic growth to expand its product offerings and market presence and has recently announced acquisition of the Germany-based iSYS RTS GmBH, which would further require a fund outflow of Rs. 40-50 crore.

ICRA also expects the capital expenditure requirements in the standalone entity over the near term to be significant with capacity expansion, technology up-gradation, maintenance requirements and investments for new products like BS-VI sensors and 2W alloy wheels requiring investments of Rs. 150-200 crore in the current fiscal. Coupled with the ongoing expansion in entities like Clarton Horns, Minda Kosei and Minda Kyoraku, which requires equity funding support from MIL, and the outflow required for consolidation, inorganic growth and operational support in certain JVs, ICRA expects significant cash outflow from MIL over the near term. While healthy cash accruals from operations in the range of Rs. 150-200 crore annually would also be used to meet these requirements, the company would remain dependent on external financing to bridge the deficit. Although incremental debt is planned to be availed for the same, the impact on the consolidated financial risk profile is not expected to be material, and MIL is anticipated to continue to maintain healthy credit metrics with Total Debt/OPBITDA in the range of 1.0-1.5 times and the interest cover between 12.0-15.0 times going forward. Nevertheless, ICRA would continue to monitor the developments which require sizeable cash outflow from MIL, the funding mix adopted for the same, and the impact on the company's financial risk profile.

Outlook: Stable

ICRA expects MIL would continue to strengthen its business profile going forward, with the ongoing consolidation exercise, inorganic growth initiatives and ramp-up in new product segments expected to improve revenue growth prospects and diversification. Despite additional debt to be undertaken to fund cash outflow requirements from MIL partially, the financial risk profile and credit metrics are not likely to witness any adverse material impact.

The outlook could be revised to Negative in case of significant weakening of credit metrics, with higher-than-expected debt-funded acquisitions, capex or investments undertaken in any entity, or longer-than-expected timelines in ramp-up in any entity, which adversely impacts the consolidated financial risk profile.

The outlook could be revised to Positive in case of significant improvement in credit metrics, and any sizeable equity raising which supports the company in meeting its fund outflow requirements and improves its liquidity profile.

Key rating drivers

Credit strengths

Well-diversified business profile with presence across multiple automotive segments, customers and product segments – MIL is among the most well-diversified domestic auto component manufacturers with presence across multiple product categories, customers and automotive segments. The company derives 35% of its consolidated revenues from automotive switches, 26% from lighting, 16% each from horns and aluminium die-casting, and the rest from products like blow-moulded components, rubber hoses, batteries etc. Additionally, it is present in air bags, infotainment systems, air filters, driving assistance products etc through multiple JVs.

The company's customer exposure is diversified with its largest customer, MSIL accounting for only 22% of the consolidated revenues. In terms of automotive segments, 2W and three-wheelers (3W) account for 56% of the total revenues, while PV accounts for the rest. Geographically, it derives 82% of its revenues from the Indian market and the rest from international operations.

Healthy market share and established presence in major product segments – MIL is a market leader or among the leading players in most of its product segments. In the domestic automotive switch and acoustics markets, it is the largest player with approximately 65% and 40% share, respectively, while in the domestic automotive lighting market, it is the third largest player with approximately 20% share. In the domestic PV alloy wheel market, it is positioned as the largest player in terms of installed capacity with about 35-40% share.

Strong relationships with major global automotive suppliers supports MIL's technological capabilities and enables expansion in product portfolio – Over the years, MIL has entered into multiple JV partnerships and technical collaborations with foreign players, which has helped the company expand its product portfolio and improve the content per vehicle with the OEMs. These include Kosei for alloy wheels, Tokai Rika for switches, seat belts and gear shifters, AMS for lightings, Kyoraku for blow-moulded components, Toyoda Gosei for air bags, rubber hoses and sealings, Denso Ten for infotainment systems, Katolec for PCBs, Onkyo for speakers and TTE for driving assistance products among others.

Consolidation exercise undertaken within the Group has contributed to revenue growth and diversification – Over the past few years, MIL has concentrated on bringing multiple entities in the Group under its ambit, purchasing stake from some promoter companies and JV partners to make these direct subsidiaries or JVs of the company. Entities like Mindarika, PT Minda, Sam Global, Minda D-Ten etc, which were not a part of the consolidated profile earlier are now getting consolidated with an increase in the direct shareholding by MIL. Consequently, MIL's revenue growth and business diversification, over the recent years, has gained support from this exercise.

Improvement in financial risk profile with strengthening profitability indicators and credit metrics – MIL has reported steady strengthening of its financial risk profile over the recent years, with OPM expanding to 12.1% in FY2018 from 4.6% in FY2014 and improvement in credit metrics like interest cover (15.4 times from 3.2 times), gearing levels (0.4 times from 0.9 times), TD/OPBITDA (1.1 times from 3.9 times) etc in the aforementioned period. Ramp-up in operations across the manufacturing facilities of the various entities being consolidated, along with cost rationalisation measures undertaken supported the improvement in profitability and return indicators over the years. The Rs. 300-crore QIP issuance in FY2017 has also helped to reduce the reliance on external borrowings for meeting the fund outflow requirements for standalone capex, consolidation and investment requirements across various entities.

Credit challenges

Sizeable near-term cash outflow for capital expenditure, investments in subsidiaries/JVs and the ongoing consolidation exercise; dependence on external financing likely to increase – MIL has capex requirements of approximately Rs. 200 crore in the standalone entity in the current fiscal with respect to capacity expansion, technological up-gradation and manufacturing facilities for new products in addition to maintenance capex. Additionally, there would be fund outflow towards investment requirements in various entities in relation to consolidation, acquisition, financial support to subsidiaries (in line with company's investment plans) and the ongoing capex in those entities. Consequently, the company is expected to avail incremental borrowings of ~Rs. 250-300 crore in the current fiscal for meeting these fund outflow requirements.

Recently set up JVs in nascent stages of operation, would require funding support till operations stabilise – Entities like Minda Onkyo, Minda TTE, Minda Katolec, Minda TG etc, which are at present in the nascent stages of operations would require MIL's funding support (in line with company's investment plans) for meeting its debt repayment obligations, capex requirements and any gaps in operational cash flows over the near term till operations scale up to sustainable levels.

Susceptible to slowdown and cyclicality in the domestic automotive industry and raw material price fluctuations – With approximately 82% of its revenues derived from the Indian automotive market, the company remains exposed to the risks of slowdown and cyclicality of the industry, although insulated to some extent by its presence across automotive segments. Moreover, given the increase in commodity prices over the recent quarters, MIL's profitability over the near term is likely to remain pressurised, though price revisions undertaken with OEMs would offset this impact over the medium term.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of MIL and its various subsidiaries and joint ventures. ICRA has also applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Auto Component Manufacturers

About the company

MIL, the flagship company of the N.K. Minda Group, is one of the most diversified auto-component manufacturers in India with presence across multiple product segments such as switches, lighting, horns, fuel cap, auto-gas and batteries. The company is a leading domestic player in automotive switches (across 2W, 3W and PV segments) and automotive horns, and the third-largest player in the automotive lighting systems (for 2Ws, 3Ws and 4Ws). On a consolidated basis, it has a well-diversified revenue portfolio spread across switches (35%), lighting systems (26%), horns (16%), alloy wheels and die casting (16%) and others (7%). MIL's segment-wise exposure is also well-diversified, deriving 56% of revenues from the 2W segment and the rest from 4Ws.

Over the past few years, MIL has scaled up substantially and diversified its business profile through a combination of acquisitions, scale-up in greenfield projects and consolidation of Group companies (involved in the auto-component business). In April 2013, MIL acquired Clarton Horn, a Spanish horn manufacturer, making it a global player in the horns market for PVs. In FY2017, 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 and Systems Technical Center (part of the Spanish Rinder Group). Other major subsidiaries of MIL include Minda Kosei (manufactures alloy wheels for PV OEMs), PT Minda, Sam Global, Minda Distribution and Services (trading wing of the group) and MJ Casting Limited (manufactures aluminium die-casting products for 2W OEMs and Tier I suppliers). During the current fiscal, MIL has announced acquisition of 80% stake in iSYS RTS GmBH to expand its presence in the ECU and controller space.

In addition to these, the company has also set up multiple JVs with the global automotive majors, which has helped it improve its technical capability and expand its product portfolio over the years. These include Minda Kosei (manufactures alloy wheels for PV OEMs), Minda TG Rubber Pvt. Ltd. (manufactures brake and fuel hoses), Roki Minda Company Private Limited (manufactures air intake systems and carbon canisters), and Minda D-Ten India (involved in infotainment systems) among others. In FY2017, three new JVs were also set up, with Katolec, Tung Thi Electronic (Taiwan) and Onkyo (Japan) for the manufacturing of printed circuit boards, driving assistance systems and speakers, respectively and an additional JV with Kosei in FY2019 for backward integration in alloy wheels.

Key financial indicators – Consolidated

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	3,389.0	4,474.5
Concern Share (Rs. crore)	162.7	315.0*
OPBDIT/OI (%)	11.1%	12.0%
RoCE (%)	21.2%	25.1%
Total Debt/TNW (times)	0.4	0.4
Total Debt/OPBDIT (times)	1.3	1.1
Interest Coverage (times)	9.5	15.4

*Rs. 256 crore adjusted for exceptional gain and adjustments related to deferred tax on account of the same

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating Nov 2018	Date & Rating Oct 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 Oct 2016	Aug 2016	Date & Rating in FY2016 Mar 2016	Aug 2015
1	Term Loan	Long Term	91.10	86.98	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ &	[ICRA] A+ (Stable)
2	Cash Credit	Long Term	98.50	NA	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ &	[ICRA] A+ (Stable)
3	Non Fund Based	Short Term	37.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+ &	[ICRA] A1+
4	Unallocated	Long Term	23.40	NA	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ &	[ICRA] A+ (Stable)
5	Fund Based Limits	Short Term	-	-	-	-	-	-	-	[ICRA] A1+ &	[ICRA] A1+
6	Commercial paper	Short Term	30.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-	-

*As on September 30, 2018 &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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2015	Linked to bank base rate	FY2020	6.10	[ICRA]AA (Stable)
NA	Term Loan 2	FY2019	Linked to bank base rate	FY2025	85.00	[ICRA]AA (Stable)
NA	Cash Credit	NA	NA	NA	98.50	[ICRA]AA (Stable)
NA	Non Fund Based	NA	NA	NA	37.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	15.00	[ICRA]AA (Stable)
NA	Commercial paper*	NA	NA	90 days	30.00	[ICRA]A1+

*Not placed by company currently

Source: Minda Industries Limited

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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.

For more information, visit www.icra.in

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