September 04, 2019

Minda Industries Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	91.10	185.00	[ICRA]AA(Stable); Reaffirmed
Cash Credit Facilities	98.50	117.50	[ICRA]AA(Stable); Reaffirmed
Non-fund Based Limits	37.00	37.00	[ICRA]A1+; Reaffirmed
Unallocated	23.40	10.50	[ICRA]AA(Stable); Reaffirmed
Total Bank Lines	**250.00**	**350.00**	
Commercial Paper Programme	30.00	60.00	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to reflect the strong business profile of Minda Industries Limited (MIL) as a leading automotive component manufacturer, as well as its comfortable financial risk profile characterised by healthy profitability and credit metrics.

MIL continues to strengthen its business profile by improving its market position across product segments and expanding its product portfolio through organic and inorganic routes. The company is the largest supplier of automotive switches for passenger vehicles (PVs) and two-wheelers segments and horns in India. Through its joint venture (JV) with Kosei, the company is also the largest manufacturer of PV alloy wheels by installed capacity. Additionally, it is the third largest player for lighting products in the automotive original equipment manufacturer (OEM) segment.

MIL, through its subsidiaries/JVs, is also positioned as the second largest supplier of blow-moulded automotive products and air filters and has been growing its presence in product segments such as rubber hoses, air bags, infotainment systems, driving assistance products (DAPS) and speakers as well. MIL's established relationships with major domestic automotive OEMs and its healthy share of business with them offer revenue visibility, going forward.

MIL's business profile is also characterised by healthy diversification across product segments, customers and automotive segments. In FY2019, the company derived 38% of its consolidated revenues from automotive switches, 22% from automotive lightings, 15% from aluminium die-castings (including PV alloy wheels) and 12% from automotive horns. In addition to components like blow-moulded parts, batteries, rubber hoses, box-build assemblies, electronic controller units (ECUs) etc. which constituted the remaining 17% of its consolidated revenues, MIL also has presence in other product segments like air filters, infotainment systems, air bags, speakers and DAPS through numerous JVs with foreign players, most of whom are from Japan. Going forward, the proposed acquisition of Harita Seating Systems Limited (HSSL) and its JV, Harita Fehrer Limited (HFRL, rated [ICRA]A-&[1]/[ICRA]A2+&), would support further diversification of the

[1] *On Watch with Developing Implications*

business profile, with product portfolio expanding to include automotive seating as well and segment diversification improving to include commercial vehicles (CVs) and tractors as well. MIL is also setting up a 2W alloy wheel plant with an initial capacity of 3.6 million at an investment of Rs. 250 crore. The plant, expected to commence operations from FY2021, would further expand the company's product offerings. Though the investment in setting up the alloy wheels facility is sizeable, the business risk is mitigated partially by a confirmed order from a leading 2W OEM. Despite ongoing slowdown in the automobile sector, ICRA expects that the ramp-up in production in the alloy wheel plant will not be deferred materially, as it is primarily based on import substitution.

MIL's presence across other product segments, like air bags, air filters, blow-moulded components, etc, is further supported by its strong JV partnerships and technical arrangements with various global automotive suppliers. Over the years, it has formed JVs with multiple auto-component manufacturers, which have helped the company to expand and offer a comprehensive range of products to its client OEMs. In addition to the technological capabilities, the foreign partners have helped the JVs secure business from the Indian subsidiaries of global OEMs, ensuring limited gestation period.

MIL's diversified business profile, with presence across product segments and OEMs, have supported it to a large extent in maintaining its revenues during the current fiscal, despite the sharp slowdown in the domestic automotive market. Additionally, the company has benefitted from the strong technical collaborations in place, which have helped it expand its product portfolio to include latest-technology products, also supporting its revenues. Despite steep production cuts by its largest customer, Maruti Suzuki India Limited (MSIL, accounted for 20% of the revenues), and a 10% decline in its key automotive segment of 2W till July 2019 (accounted for 51% of the revenues), MIL managed to register a marginal growth of 0.7% in Q1 FY2020, supported by incremental revenues from new products and models. Nevertheless, the current year's performance is likely to remain muted, given the prolonged weakness across the domestic market.

ICRA also notes the sizeable capital expenditure (capex) requirements at MIL's consolidated level, including a greenfield capex of Rs. 350 crore in the current fiscal towards setting up the 2W alloy wheel plant and the sensor and controller projects. The company would also incur maintenance and brownfield capex of approximately Rs. 100-150 crore in FY2020. In FY2019, the company's debt levels increased to Rs. 1,081 crore from Rs. 609 crore, because of long-term borrowings availed for funding capex and investment requirements. and are likely to remain elevated during the current fiscal, given the ongoing capex requirements. Additionally, the HSSL acquisition, which is yet to be concluded, has potential to increase the debt levels further if HSSL's shareholders opt for redeemable preference shares (as a part of the transaction). Accordingly, over the medium term, MIL's debt levels are expected to remain high, with a consolidated gearing in the range of 0.4-0.8x and Total Debt/OPBDITA in the range of 1.3-2.0x. Nevertheless, aided by healthy profitability and cash flow generation from operations, MIL's credit metrics are likely to remain comfortable with interest coverage in the range of 6-10x and DSCR above 2.0x. Notwithstanding this, 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 its financial risk profile.

ICRA also notes that some of the company's recently commercialised entities, like Minda Katolec, Minda TTE and Minda Onkyo, are still in nascent stages of their operations and are likely to remain dependent on MIL for meeting their capex, product development and debt servicing requirements over the medium term, till the operations scale up to sustainable levels. ICRA would continue to monitor the performance of these entities, MIL's cash outflow for supporting them, and the impact of the same on its financial risk profile. Additionally, timely ramp-up of the new projects (like 2W alloy wheel and BS-VI sensors) would remain critical in maintaining the company's profitability and credit metrics and, hence, developments on this front would remain key sensitivities.

The Stable outlook on the long-term rating reflects ICRA's opinion that MIL would continue to maintain its healthy business and financial risk profile, going forward. Revenue growth over the medium term would remain supported by inorganic growth initiatives and ramp-up in new product segments, while organic growth in the near term is likely to be muted given the current subdued demand environment. Despite additional debt to be undertaken to fund capex requirements, the deterioration in capital structure and credit metrics is likely to be a temporary phenomenon.

Key rating drivers and their description

Credit strengths

Well-established market position in most product segments - MIL is the largest automotive switch manufacturer in India, largest PV alloy wheel manufacturer, second largest player globally in automotive acoustics, and third largest player in India for automotive lightings. Together these four product segments accounted for approximately 83% of the company's consolidated revenues in FY2019. In other product segments, like blow-moulded products and air filters, MIL enjoys a leadership position in the domestic market through its subsidiaries/JVs.

Diversified business profile in terms of segments, customers and products - MIL's business profile is well diversified, with presence across multiple automotive and product segments, and catering to a wide portfolio of automotive OEMs. About 38% of the consolidated revenues are derived from automotive switches, 22% from lighting, 15% from aluminium die-casting, 12% from horns, and the rest from products like blow-moulded components, rubber hoses, batteries etc. Additionally, it is present in air bags, air filters, DAPS, etc, through multiple JVs. The product diversification would further improve, going forward, with the planned acquisition of HSSL and HFRL, which would add automotive seating systems to its product portfolio.

The company's customer exposure is also diversified with its largest customer, MSIL, accounting for 20% of the consolidated revenues. In terms of automotive segments, 2Ws and three-wheelers (3Ws) account for 51% of the total revenues, while PVs account for the rest. The HSSL acquisition would also help increase MIL's presence in the CV segment. Geographically, it derives 84% of its revenues from the Indian market and the rest from international operations.

Technological capabilities and business prospects supported by collaborations with global automotive component suppliers - MIL has focussed on expanding into new product segments and improving its technological capabilities in existing product segments by entering into JVs and technical collaborations with foreign players. 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 printed circuit boards (PCBs), Onkyo for speakers, TTE for DAPs, Sensata for sensors, and KPIT for telematics, among others. These collaborations have helped MIL expand its product portfolio and content per vehicle with OEMs.

Consolidation exercise undertaken within Group supported revenue growth and diversification - The consolidation exercise undertaken within the Uno Minda Group, wherein MIL purchased stake from some promoter companies and JV partners, supported MIL's revenue growth and business diversification over the last few years. Entities like Mindarika, PT Minda and Sam Global, which were earlier not a part of the consolidated profile, are now consolidated following the increase in MIL's direct shareholding, while other entities like Denso Ten Minda, Minda D-Ten, TG Minda and Roki Minda, etc, have become its JV companies.

Credit challenges

Susceptible to inherent cyclicality of automotive industry; ongoing slowdown in domestic market likely to result in muted performance in near term - As MIL derives the major proportion of its revenues (84% in FY2019) from the domestic automotive market, its earnings remain susceptible to the inherent cyclicality of the market. The domestic automotive market is currently undergoing a sharp slowdown because of multiple headwinds, like increasing ownership costs, macroeconomic slowdown, liquidity challenges, impending BS-VI emission norm implementation and high inventory levels in the system. Although MIL performed better vis-à-vis the industry trends in Q1 FY2020, the current year performance is likely to remain muted given the current demand environment.

Increased reliance on external borrowings over last two fiscals to fund investment and capex requirements - Over the previous and current year, MIL has availed sizeable debt to fund its capex requirements and investments related to acquisitions and consolidation exercise within the Group. At the standalone level, MIL has two sizeable ongoing projects - the 2W alloy wheel plant (Rs. 250-crore project) and the sensor plant being set up in collaboration with Sensata (Rs. 100-crore project), besides regular maintenance, technological upgradation requirements etc. In addition to the debt being availed for these projects, the HSSL acquisition also has potential to increase leverage, if HSSL's shareholders opt for redeemable preference shares as part of the transaction. Hence, over the medium term, MIL's debt levels are expected to remain elevated with consolidated gearing in the range of 0.4-0.8x and Total Debt/OPBDITA in the range of 1.3-2.0x.

Recently set up JVs in nascent stages of operations might require funding support from MIL over medium term - Entities like Minda Onkyo, Minda TTE and Minda Katolec, which are at present in nascent stages of operations, would require some funding support from MIL over the medium term, for meeting their debt repayment obligations, capex requirements and any shortfall in operational cash flows till the operations scale up to sustainable levels.

Liquidity position - Adequate

At the standalone level, MIL's liquidity is **adequate** with comfortable cash flow from operations of approximately Rs. 120 crore, which would increase, going forward, given the HSSL amalgamation and the commencement of operations at the two new plants. The near term capex requirements are expected to be funded through a mix of debt and internal accruals, the funding for which has already been tied up. Although the debt repayment obligations would increase from the next fiscal, ICRA expects the company's internal accruals to be adequate for servicing the same.

ICRA takes comfort from the liquidity buffer available to the company in the form of unutilised working capital facilities, which averaged at Rs. 65 crore in the 12-month period ended May 2019. The company also had comfortable cash and liquid investments of Rs. 25.2 crore as of March 2019, providing further cushion. In addition, being part of the Uno Minda Group, the company enjoys healthy financial flexibility.

Rating sensitivities

Positive triggers: A sustained reduction in capex and investment outflow, coupled with a steady reduction in debt levels, supporting its financial risk profile, could lead to a positive rating action. Ramp-up in new JVs and ongoing projects to profitable levels, such that their operations are self-sustainable, remains imperative.

Negative triggers: Higher-than-projected debt-funded capex or investments, which lead to weakening of key credit metrics, like TD/OPBDITA above 2x and interest cover below 6x, could lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on MIL's consolidated financial statements

About the company

Minda Industries Limited, the flagship company of the N.K. Minda Group, is one of the most diversified auto component manufacturers in India with a 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 automotive lighting systems (for 2Ws, 3Ws and four-wheelers (4Ws)). On a consolidated basis, the company has a well-diversified revenue portfolio, spread across switches (38%), lighting systems (22%), horns (12%), alloy wheels and die-casting (15%), and others (13%). MIL's segment-wise exposure is also well diversified, deriving 51% of revenues from 2W and 3W segments, and the rest from 4Ws.

Over the last few years, MIL has scaled up substantially and diversified its business profile through acquisitions, scale-up in greenfield projects, and consolidation of Group companies (involved in 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 a 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). In FY2018, MIL acquired an 80% stake in iSYS RTS GmBH to expand its presence in the ECU and controller space. MIL's other major subsidiaries 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). In FY2019, MIL announced the acquisition and amalgamation of HSSL and its 51% JV, HFRL, to enter the automotive seating space.

The company has also set up multiple JVs with global automotive majors, which have helped it improve its technical capability and expand its product portfolio over the years. These include Minda Kosei, 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 set up with Katolec, Tung Thi Electronic (Taiwan) and Onkyo (Japan), for the manufacturing of PCBs, driving assistance systems and speakers, respectively, and an additional JV with Kosei in FY2019 for backward integration in alloy wheels. Additionally, MIL has entered into collaborations with players like Sensata Technologies and KPIT Engineering Limited for acquiring knowhow and capabilities in specific product segments and areas.

Key financial indicators (audited) - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	4,474.5	5,908.6
PAT (Rs. crore)	307.8	320.6
OPBDIT/OI (%)	12.0%	12.5%
RoCE (%)	25.1%	21.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.1
Total Debt/OPBDIT (times)	1.1	1.5
Interest Coverage (times)	15.4	11.7
DSCR	4.1	4.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019		FY2018	FY2017	
					4-Sep-2019	27-Nov-2018	10-Oct-2018	7-Sep-2017	3-Oct-2016	30-Aug-2016
1	Term Loan	Long Term	185.0	180.75	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Cash Credit	Long Term	117.50	53.44	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Unallocated	Long Term	10.50	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Non-fund Based Limits	Short Term	37.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short Term	60.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore **As on March 31, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	FY2019	MCLR linked	FY2024	100.00	[ICRA]AA(Stable)
NA	Term Loan II	FY2019	MCLR linked	FY2024	85.00	[ICRA]AA(Stable)
NA	Cash Credit	NA	NA	NA	117.50	[ICRA]AA(Stable)
NA	Non-fund Based Limits	NA	NA	NA	37.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	10.50	[ICRA]AA(Stable)
NA	Commercial Paper	NA	NA	7-365 days	60.00	[ICRA]A1+

Source: Minda Industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Minda Auto Components Limited	100.00%	Full Consolidation
Minda Kyoraku Limited	67.60%	Full Consolidation
Minda Distribution and Services Limited	100.00%	Full Consolidation
MI Torica India Private Limited	60.00%	Full Consolidation
ISYS RTS, GmBH, Germany	80.00%	Full Consolidation
Global Mazinkert S. L.	100%	Full Consolidation
Minda TG Rubber Private Limited	51.00%	Full Consolidation
Minda Kosei Aluminum Wheel Private Limited	69.99%	Full Consolidation
MJ Casting Limited	100.00%	Full Consolidation
PT Minda Asean Automotive	100.00%	Full Consolidation
Sam Global Pte Limited	100.00%	Full Consolidation
Minda Rinder Private Limited	100.00%	Full Consolidation
Minda Storage Batteries Private Limited	100.00%	Full Consolidation
YA Auto Industries	51.00%	Full Consolidation
Mindarika Private Limited	51.00%	Full Consolidation
Minda Katolec Electronics Services Private Limited	51.00%	Full Consolidation
Minda Emer Technologies Limited	49.10%	Equity Method
Roki Minda Co. Private Limited	49.00%	Equity Method
Minda TTE DAPS Private Limited	50.00%	Equity Method
Minda Onkyo Private Limited	50.00%	Equity Method
Densoten Minda Private Limited	49.00%	Equity Method
Minda D Ten Private Limited	51.00%	Equity Method
Toyoda Gosei Minda India Private Limited	47.80%	Equity Method
Kosei Minda Mould India Private Limited	49.90%	Equity Method
Minda NexGenTech Limited	26.00%	Equity Method
Yogendra Engineering	48.90%	Equity Method
Auto Components	48.90%	Equity Method
Kosei Minda Aluminum Company Private Limited	30.00%	Equity Method

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About ICRA Limited:

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