November 28, 2022

Mindarika Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based Working Capital	5.0	7.0	[ICRA]AA-(Stable); Reaffirmed
Short -term – Non-fund Based Working Capital	22.1	22.1	[ICRA]A1+; Reaffirmed
Long-term/ Short -term – Fund Based/Non-fund Based Working Capital	24.5	42.0	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Long Term / Short Term-- Unallocated	23.4	0.0	-
Total	**75.0**	**71.1**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings of Mindarika Private Limited (MRPL) continues to factor in the well-established position of the company as the market leader in the domestic automotive switch segment for passenger vehicles (PVs), its healthy financial risk profile and its strong parentage as a joint venture (JV) between Uno Minda Limited, (or UML, rated [ICRA]AA+ (Stable)/[ICRA]A1+) and Tokai Rika Co. Ltd., Japan.

MRPL enjoys approximately 50% share in the PV industry for automotive switches (such as lever combination switches or LCS, power window switches and steering switches). It commands a strong share of business with major PV OEMs, such as Maruti Suzuki India Limited (MSIL), Toyota Kirloskar Motor Private Limited (TKML), Tata Motors Limited (TML; rated [ICRA]AA-(Stable)/[ICRA]A1+), Renault-Nissan (RN) and Mahindra & Mahindra Limited (M&M; rated [ICRA]AAA(Stable)/[ICRA]A1+), among others. Since Tokai Rika holds 37% stake in the company, MRPL receives technical support that supplements its in-house product development capabilities, helping MRPL to adapt to its OEM clients' changing technological requirements.

MRPL continues to maintain a healthy financial risk profile, characterised by robust capitalisation and coverage metrics (Debt/OPBDITA at 0.4 time and interest coverage at ~41.0 times in FY2022). The company recorded revenues of ~Rs. 890 crore in FY2022, a ~35% YoY growth despite a weak first quarter, benefitting from a low base in the previous year, which was adversely impacted by pandemic related disruptions. The revenue growth has remained robust in the current year as well (~47% growth in H1 FY2023). Strong cash and liquid investments of ~Rs. 40 crore and working capital buffer of ~Rs. 20 crore as on March 31, 2022, provide additional comfort.

MRPL's capex plans over the next two years remain elevated at approximately Rs. 300 crore in total. This is largely towards the company's project of setting up a new plant in Farukhnagar (Haryana); the machinery for the new plant would be transferred from MRPL's plant in Manesar (Haryana) as the latter will be decommissioned. Additionally, the company will spend an additional Rs. 30-40 crore towards expansion of its Chennai plant. While the financial metrics are expected to moderate over the next couple of years owing to this capex being partially funded with debt, the expected cash flows are likely to help the company maintain a strong financial risk profile.

The ratings continue to be constrained by the company's high dependence on the domestic PV industry, given that nearly 90% of its revenues are generated by domestic PV OEMs. MRPL has restricted presence in the commercial vehicle (CV) segment (especially in the goods carrier segment), which has lower content per vehicle and, accordingly, a smaller market size vis-à-vis PVs. In addition, more than 75% of MRPL's revenue comes from MSIL, which results in customer concentration risk. However, a stable and healthy share of business with MSIL, which is a market leader in the PV segment, and strong demand outlook in the domestic PV market in the near term, moderates the risks to an extent. The JV agreement limits MRPL's scope of expansion, due to which its performance is likely to be highly correlated with the domestic PV industry in the near-to-medium term. Along with the company's sole focus on manufacturing automotive switches, this limits its scale of operations, thereby potentially constraining its top-line growth over the medium term.

The Stable outlook on the long-term rating reflects ICRA's opinion that MRPL will continue to benefit from its strong parentage, established relations and stable share of business with PV OEMs, helping it maintain a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Market leader for automotive switches in PV segment with presence across OEMs; healthy share of business with key customers – MRPL is the leader for automotive switches in the PV segment, with an estimated market share of ~50%. Technical support from its JV partner, Tokai Rika, Japan, has helped it to provide the latest technology in automotive switches, as well as to maintain relationships with Japanese OEMs and, thus, stay ahead of competition. MRPL is the largest supplier of automotive switches to MSIL, the market leader in the PV segment in the country and is present in virtually all its models. The company also enjoys a high share of business with TKML and has significant presence in most models of other key PV OEMs as well.

Strong parentage of UML and Tokai Rika, Japan – The company derives operational synergies and financial flexibility from its parent company, UML (rated [ICRA]AA+ (Stable)/A1+) and receives technical support from Tokai Rika. Tokai Rika also has representatives on MRPL's board and aids in streamlining the company's production process.

Financial risk profile characterised by comfortable capital structure and healthy debt protection metrics – MRPL has healthy coverage and capitalisation ratios supported by low debt, no repayment obligations and healthy operating profitability over the years (10.9% in FY2022). The company also registered significant revenue growth in FY2022 (Rs. 889 crore) after a weak FY2021, and the credit metrics remain comfortable with Debt/OPBDITA at 0.4 time and interest coverage at 41.0 times in FY2022. Strong cash and liquid investments of ~Rs. 40.0 crore and adequate working capital buffer as on March 31, 2022, provide additional comfort despite the company's budgeted capex plans to enhance its manufacturing capacity.

Credit challenges

Limited business diversification – MRPL has limited business diversification in terms of segment, customer and product profile. The company derives ~90% of its revenues from the PV segment, with MSIL accounting for more than 75% of its income. Moreover, virtually its entire revenues are generated from automotive switches, exposing MRPL to product concentration risk. Some of these risks are reduced to an extent by its healthy and stable share of business with customers and MSIL's position as the leader in the PV segment.

Limited scope of expansion in overseas markets owing to limitation under JV agreement – As per the JV agreement between Tokai Rika and the Uno Minda Group, the company is required to obtain a written consent for exporting to countries where Tokai Rika has a direct presence. As Tokai Rika is a global auto-component manufacturer with presence across important markets, there is limited scope for MRPL to expand its international presence. At present, exports account for less than 5% of its total sales and are unlikely to scale up significantly over the medium term.

Liquidity position: Strong

MRPL has a strong liquidity profile supported by steady cash flow generation (FFO), undrawn working capital limits (Rs. 58 crore as on March 31, 2022) and healthy cash and liquid investments (Rs. 40 crore as on March 31, 2022). The company does not have any long-term debt on its books, even as it is expected to incur capex of ~Rs. 300 crore over the next two years, which would be funded through a mix of debt and internal accruals. The company continues to enjoy healthy financial flexibility, as a part of the Uno Minda Group.

Rating sensitivities

Positive factors – A material diversification of the segment mix or expansion of its product portfolio would be seen as a credit positive for the company. Also, a substantial improvement in revenue and profitability, while maintaining its healthy financial risk profile would be considered favourably for a rating upgrade.

Negative factors – A rating downgrade could be triggered if a prolonged slowdown in the PV industry or loss of the company's market share results in a significant deterioration in cash accruals and credit metrics. A higher than-expected dividend or capex outflow could impact the company's credit metrics and, hence, result in a negative rating action. In terms of specific metrics, Total Debt/OPBITDA above 1.5 times on a sustained basis may result in a rating downgrade. Moreover, a weakening in the credit metrics of its parent company, MIL, or a deterioration in the linkages between the two entities, could also exert pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Companies: MRPL is a 63:37 JV between the Uno Minda Group and Tokai Rika. The ratings factor in the business and technological support from its parent companies. The ratings assigned also factor in the very high likelihood of its parent entities extending financial support to MRPL out of the need to protect their reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Mindarika Private Limited was established in 1992 as a 63:37 joint venture be,tween the Uno Minda Group and Tokai Rika Co. Ltd., Japan. The company is a leading manufacturer of automotive switches such as lever combination switches, power window switches, and oil presser switches, catering mostly to PV OEMs in India. MRPL has approximately 50% market share in its addressable product segment and caters to all major PV OEMs in India including MSIL, M&M, TKML, Honda Cars India Limited and Renault-Nissan, among others. The company has four manufacturing units across Manesar, Chennai, Pune and Gujarat.

After the consolidation exercise undertaken by Uno Minda Limited (formerly Minda Industries Limited; rated [ICRA]AA+(Stable)/A1+), MRPL became its 51% subsidiary (from 27% as on March 31, 2017), which further strengthened the synergies between the two companies.

Key financial indicators (audited)

	FY2021	FY2022	H1FY2023 (prov)
Operating income	660.4	889.0	590.6
PAT	34.4	54.0	28.0
OPBDIT/OI	11.9%	10.9%	9.1%
PAT/OI	5.2%	6.1%	4.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.9	-
Total debt/OPBDIT (times)	0.5	0.4	-
Interest coverage (times)	25.4	41.0	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 28, 2022	Sep 27, 2021	Jun 19, 2020	Apr 26, 2019
1	Fund-based Working Capital	Long-term	7.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund Based Working Capital	Short term	--	--	--	--	[ICRA]A1+	[ICRA]A1+
3	Non-fund Based Working Capital	Short term	22.1	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund-based – Term Loan	Long-term	--	--	--	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
5	Fund Based/Non-fund Based Working Capital	Long-term and short term	42.0	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	--	--
6	Unallocated	Long-term and short term	--	--	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Working Capital	Simple
Short -term – Non-fund Based Working Capital	Very Simple
Long-term/ Short -term – Fund Based/Non-fund Based Working Capital	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Limits--Cash Credit	NA	NA	NA	7.0	[ICRA]AA-(Stable)
NA	Non-fund based Limits	NA	NA	NA	22.1	[ICRA]A1+
NA	Fund Based/Non-fund Based Limits	NA	NA	NA	42.0	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Debadrita Mukherjee
+91124-4545394
debadrita.mukherjee@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches