

January 19, 2024

Uno Mindarika Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Long-term – Fund based – Term loans | 0.00 | 80.00 | [ICRA]AA- (Stable); Assigned |
| Long-term – Fund based – Cash credit | 7.00 | 0.00 | - |
| Long-term/Short-term – Fund based/non-fund-based – Working capital | 42.00 | 50.00 | [ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed/Assigned |
| Total | 49.00 | 130.00 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Uno Mindarika Private Limited (UMRPL; formerly Mindarika private Limited) 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 strong parentage as a joint venture (JV) between Uno Minda Limited (UML; rated [ICRA]AA+ (Stable)/[ICRA]A1+) and Tokai Rika Co. Ltd., Japan. The strong business profile provides comfort regarding the company's ability to generate healthy cash flows going forward, which would help it maintain a strong credit profile.

UMPL enjoys ~45-50% 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. As Tokai Rika holds a 37% stake in the company, UMPL receives technical support that supplements its in-house product development capabilities, helping UMPL to adapt to its OEM clients' changing technological requirements.

UMPL continues to maintain a healthy financial risk profile, characterised by robust capitalisation and coverage metrics (Total Debt/OPBDITA at 0.4 times and interest coverage at ~52 times in FY2023). The company recorded revenues of ~Rs. 1,248 crore in FY2023, a ~40% YoY growth; robust revenue growth has continued in the current year as well (~23% growth in H1 FY2024 over H1 FY2023). Cash and liquid investments of ~Rs. 15 crore and working capital limits (minimal utilisation) provide additional comfort.

UMPL's capex plans over the next two years remain elevated at approximately Rs. 300 crore over FY2024-FY2025. In FY2023, UMRPL completed the expansion at its Chennai plant with an expenditure of ~Rs 30-40 crore. Further expenditure is envisaged towards the company's new plant coming up in Farukhnagar (Haryana). While the financial metrics are expected to moderate over the next couple of years owing to this capex being partially funded by debt, the expected cash flows are likely to help it 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 more than 95% of its revenues are generated by domestic PV OEMs. UMPL 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 70% of UMPL's revenue emanates 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, moderate the risks to an extent. The JV agreement limits UMPL'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 UMPL will continue to benefit from its strong parentage, established relationships 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, helped it in using 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 India; and it is present in virtually all the OEM's 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 operational and financial support from parent entities – UML and Tokai Rika, Japan – The company derives operational synergies and financial flexibility from its parent company, UML 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. UML, a leader in the domestic auto component industry, ensures steady customer base and operational synergies.

Financial risk profile characterised by comfortable capital structure and healthy debt protection metrics – UMRPL has healthy coverage and capitalisation ratios supported by low debt and healthy operating profitability over the years (10.3% in FY2023). The company registered healthy revenue growth in FY2023 (Rs. 1,248 crore), and the credit metrics remain comfortable with Debt/OPBDITA at 0.4 times and interest coverage at 51.9 times in FY2023. Cash and liquid investments of ~Rs. 16 crore and adequate working capital buffer as on March 31, 2023, provide additional comfort despite the company's ongoing capex plans to enhance its manufacturing capacity.

Credit challenges

Limited business diversification – UMRPL has limited business diversification in segment, customer and product profiles. The company derives more than 95% of its revenues from the PV segment, with MSIL accounting for nearly 70%. Moreover, almost its entire revenues are generated by automotive switches, exposing UMRPL to product concentration risk. Some of these risks are reduced to an extent by its healthy and stable share of business with its customers and by MSIL's position as the market 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, MRPL 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: Adequate

UMRPL has an adequate liquidity profile, supported by steady cash flow generation, undrawn working capital limits (Rs. 50 crore as on September 30, 2023) and cash and liquid investments (~Rs. 28 crore as on September 30, 2023). The company's debt is expected to increase (~Rs 67 crore at the end of September 2023, including leases), driven by capex of ~Rs. 300 crore over the next two years, funded through a mix of debt and internal accruals. The company continues to enjoy healthy financial flexibility as part of the Uno Minda Group.

Rating sensitivities

Positive factors – Any material diversification of the segment mix or expansion of its product portfolio would be seen as a credit positive for the company. Also, any 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, UML, or a deterioration in the linkages between the two entities, could also exert pressure on the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology – Auto Components |
| Parent/Group support | Parent Companies: UMRPL 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 UMRPL, out of the need to protect their reputation from the consequences of a Group entity's distress. |
| Consolidation/Standalone | Standalone |

About the company

Uno Mindarika Private Limited was established as a 63:37 joint venture between the Uno Minda Group and Tokai Rika Co. Ltd. Japan in 1992. The company is a leading manufacturer of automotive switches such as lever combination switch (LCS), power window switch, oil presser switch, etc. and caters mostly to passenger vehicles (PV) OEMs in India. UMRPL has approximately 50% market share in its addressable product segment and caters to all major PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra (M&M), Toyota Kirloskar Motors Private Limited (TKML), Honda Cars India Limited (HCIL) and Renault-Nissan (RN), among others. The company has four manufacturing units across Manesar, Chennai, Pune and Gujarat.

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

Key financial indicators (audited)

| UMRPL | FY2022 | FY2023 | H1FY2024* |
|--|--------|---------|-----------|
| Operating income | 889.0 | 1,248.3 | 729.6 |
| PAT | 54.0 | 71.7 | 45.8 |
| OPBDIT/OI | 10.9% | 10.3% | 10.3% |
| PAT/OI | 6.1% | 5.7% | 6.3% |
| Total outside liabilities/Tangible net worth (times) | 0.9 | 0.9 | - |
| Total debt/OPBDIT (times) | 0.4 | 0.4 | - |
| Interest coverage (times) | 41.0 | 51.9 | - |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | | |
|---|--------------------------|--------------------------|--|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as of Dec 30 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | Jan 19, 2024 | Jan 11, 2023 | Nov 28, 2022 | Sept 27, 2021 | Jun 19, 2020 |
| 1 Fund based – Term loans | Long-term | 80.00 | 24.65 | [ICRA]AA-(Stable) | - | - | - | [ICRA]AA-(Stable) |
| 2 Fund based/non-fund-based – Working capital | Long-term and short-term | 50.00 | - | [ICRA]AA-(Stable)/[ICRA]1+ | [ICRA]AA-(Stable)/[ICRA]1+ | [ICRA]AA-(Stable)/[ICRA]1+ | [ICRA]AA-(Stable)/[ICRA]1+ | - |
| 3 Fund Based – Cash Credit | Long term | - | - | - | - | - | - | [ICRA]AA-(Stable) |
| 4 Fund Based – Working Capital | Long term | - | - | - | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | - |
| 5 Fund Based – Working Capital | Short term | - | - | - | - | - | - | [ICRA]A1+ |
| 6 Non-Fund Based – Working Capital | Short term | - | - | - | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 7 Unallocated Limits | Long term and short term | - | - | - | - | - | [ICRA]AA-(Stable)/[ICRA]1+ | [ICRA]AA-(Stable)/[ICRA]1+ |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long Term – Fund Based – Term Loans | 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 – Term Loans | June 2023 | - | 2028 | 80.00 | [ICRA]AA- (Stable) |
| NA | Fund Based/Non-Fund-Based – Working Capital | NA | NA | NA | 50.00 | [ICRA]AA- (Stable)/[ICRA]1+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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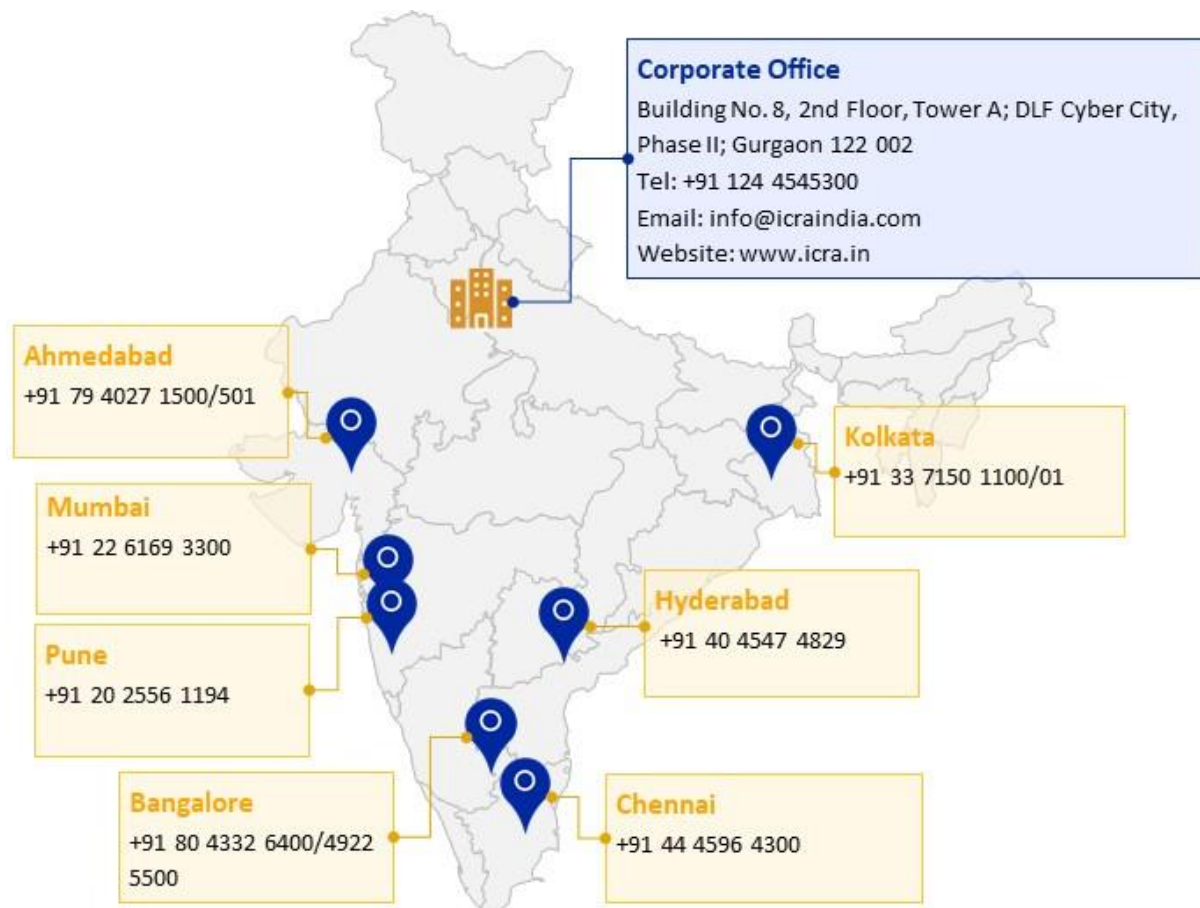
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