

August 27, 2021

Minda Industries Limited: Long-term rating upgraded to [ICRA]AA+(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	185.00	75.00	[ICRA]AA+(Stable); Upgraded from [ICRA]AA(Stable)
Cash Credit Facilities	117.50	240.50	[ICRA]AA+(Stable); Upgraded from [ICRA]AA(Stable)
Non-fund Based Limits	37.00	34.50	[ICRA]A1+; Reaffirmed
Unallocated	10.50	-	-
Total Bank Lines	350.00	350.00	
Commercial Paper Programme	100.00	100.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating of Minda Industries Limited (MIL) factors in the improvement in its financial risk profile, aided by equity fund raises of more than Rs. 940 crore over the past year, while simultaneously strengthening its business profile as well. Over the recent years, despite a sharp slowdown in the underlying domestic automotive industry and pandemic-induced disruptions, MIL has been able to grow its revenues consistently (13% CAGR over FY2018-FY2021) while maintaining steady profitability, aided by an expanding product portfolio, as well as new orders secured across product categories and Original Equipment Manufacturers (OEMs). Overall, the company's strategy of diversifying its presence across multiple products and automotive segments, and its endeavour to expand its product portfolio, both organically and inorganically, have helped it strengthen its business profile and outpace the industry growth. At the same time, MIL has maintained a comfortable capital structure and healthy credit metrics, with regular infusion of funds through the equity route; the same has helped MIL meet its cash outflow requirements for the group consolidation exercise, inorganic investments as well as capacity expansion, while keeping its dependence on external borrowings low.

MIL has an established market position within the automotive component sector in India, with a well-diversified business profile with presence across automotive and product segments, and strong technological collaborations in place to enhance its business prospects. The company enjoys market leadership across products, being the largest supplier of switches for passenger vehicles (PVs) and two-wheelers (2W) as well as for automotive horns in India. Furthermore, through its joint venture (JV) with Kosei, it is the largest manufacturer of PV alloy wheels by capacity. Additionally, MIL is the third largest player for automotive lighting products and a leading player in the automotive seating space for Commercial Vehicles (CV), tractors and 2Ws. It also enjoys a leading position in other product segments such as blow-moulded products, air filters, air bags, infotainment systems, etc, through its subsidiaries/JVs.

MIL completed the acquisition and amalgamation of Harita Seating Systems Limited (HSSL) and Harita Fehrer Limited (HFRL, rated [ICRA]A+(Stable)/A1) in the current fiscal, further strengthening its business profile through addition of a new product segment and enhanced supplies to segments such as CVs and tractors. The funding mix for the transaction was finalised as a combination of non-convertible redeemable preference shares and equity shares, with majority of shareholders opting for the former. Furthermore, the early redemption clause has been exercised by many shareholders, resulting in ~Rs. 211 crore redemption of preference shares in August 2021. The company had also announced its plan to acquire 49% additional stake in HFRL for a consideration of Rs. 115 crore, making it a wholly owned subsidiary. With a view of maintaining a conservative

financial risk profile, the company opted to raise funds of Rs. 700 crore through the QIP route in August 2021; proceeds from the same would be partially utilised towards the aforementioned payouts, and rest for deleveraging or general corporate purposes in addition to some equity infusion in subsidiaries as per requirement.

MIL continues to invest regularly in capacity expansion, both in existing product lines, as well as expansion into new product segments, with a view of strengthening its business prospects. In this regard, it commissioned its 2W alloy wheel plant and sensor plants during the previous fiscal, each with a revenue potential of Rs. 400-450 crore, and is in the process of ramping up the same. It also continues to have ongoing capacity expansion plans for alloy wheels, lighting and blow moulding, with total capex outlay of ~Rs. 350 crore announced for these projects (FY2022), and Rs. 200-250 crore annually for sustaining capex. Despite the substantial capex plans, the company's track record of prudently raising equity capital with a view of managing the overall leverage provides comfort. Additionally, a bulk of the capex initiatives are backed by confirmed orders from customers, which should enable a quick ramp up in capacity utilisation for these new facilities.

The outlook on the long-term rating is Stable, given ICRA's expectation that MIL's credit profile is expected to remain healthy over the medium term. The company is expected to continue to maintain its leadership position in key product segments, and further strengthen its business profile going forward, as supplies of 2W alloy wheels and sensors ramp up further. The financial risk profile would also continue to remain comfortable, with the funds raised through QIP expected to aid in overall debt reduction and help maintain leverage at low levels.

Key rating drivers and their description

Credit strengths

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, catering to a wide portfolio of automotive OEMs. About 29% of the consolidated revenues are derived from automotive switches, 22% from lighting, 12% from aluminium die-casting, 10% from horns, and the rest from products like blow-moulded components, rubber hoses, batteries, etc. Additionally, it is present in other products such as air bags, air filters, DAPS, etc, through multiple JVs. The product diversification has improved further with the acquisition of HSSL and HFRL, with automotive seating systems added to its product portfolio, and contributing to 10% of its consolidated revenues (FY2021).

The company's customer exposure is also diversified with its largest customer, Maruti Suzuki India Limited (MSIL), accounting for ~20% of the consolidated revenues. In terms of the automotive segments, 2Ws and three-wheelers account for 47% of the revenues, while 4-wheelers (primarily PV) account for the rest. Geographically, it derives 84% of its revenues from the Indian market and the rest from international operations. The diversified business profile helps the company mitigate the impact of any downturn in demand from specific product segments/customers, while providing healthy revenue visibility.

Well-established market position in most product segments - MIL is the largest automotive switch, automotive seat and PV alloy wheel manufacturer, and the second largest player globally in automotive acoustics, and the third largest player in India for automotive lightings. Together these five product segments accounted for approximately 82% of the company's consolidated revenues in FY2021. In other product segments as well, like blow-moulded products, air bags, speakers and air filters, MIL enjoys a leadership position in the domestic market through its subsidiaries/JVs.

Technological capabilities and business prospects supported by collaborations with global automotive component suppliers; product portfolio remains agnostic to prospective transition towards electrical mobility - MIL has focussed on expanding into new product segments and improving its technological capabilities in the 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 driver assistance produces (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.

The company's product portfolio remains powertrain agnostic, thereby limiting any risk arising from a prospective transition towards electrical mobility, going forward. Even as the company's current product portfolio is powertrain agnostic, it is focused on upgrading its product line to cater to the EV segment, while also developing several EV-specific products focused on the 2W and 3W market.

Healthy financial risk profile, characterised by a conservative capital structure and strong debt coverage indicators – Over the years, MIL has focussed on maintaining a healthy financial risk profile, characterised by low leveraging and strong debt coverage indicators. Despite sizeable investments undertaken for organic and inorganic growth, as well as group consolidation, the company has maintained its consolidated gearing in the range of 0.4-0.6 times, supported to some extent by the prudent financial management over the years, with equity infusion in the form of QIP and rights issuance done during periods of large investments, as a conscious measure to limit the leveraging. Over the past two fiscals notably, the company raised more than Rs. 940 crore through equity issuance to strengthen its balance sheet and financial risk profile.

Credit challenges

Susceptible to inherent cyclicity of automotive industry - As MIL derives most of its revenues (84% in FY2021) from the domestic automotive market, its earnings remain susceptible to the inherent cyclicity of the industry. Over the past two years, the industry underwent a sharp downturn due to multiple headwinds, with the pandemic exacerbating the same in H1 FY2021. Although MIL's earnings were also impacted during Q1 FY2021, the sequential recovery thereafter offers comfort and demonstrates the company's strong market position across various automotive segments.

Ongoing capex plans to enhance capacities; recently set up JVs in nascent stages of operations might require funding support from MIL– MIL has over the years, undertaken sizeable debt-funded capex with a view of enhancing its capacities for various products. It also continues to have ongoing capacity expansion plans for alloy wheels, lighting and blow moulding, with total capex outlay of ~Rs. 350 crore announced for these projects (FY2022), and Rs. 200-250 crore annually for sustaining capex. Despite the substantial capex plans, the company's track record of prudently raising equity capital with a view of managing the overall leverage provides comfort; additionally, a bulk of the capex initiatives are backed by tied up orders from customers, which should enable a quick ramp up in capacity utilisation for these new facilities.

Some of MIL's JV's - 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. Despite expectations of support to these entities, MIL's credit metrics are expected to remain healthy.

Liquidity position: Strong

Despite a moderation in cash flow generation due to the pandemic-induced disruptions, MIL's liquidity position remains strong, supported by unutilised working capital limits of close to Rs. 150 crore as on July 2021, and consolidated cash balances of ~Rs. 130 crore (as on June 2021). The debt repayment obligations of Rs. 230 crore, along with the early redemption of Rs. 212 crore of preference shares, are expected to be met from the available liquidity buffers and cash flow generation, as well as the funds raised through the QIP route (Rs. 700 crore raised in August 2021). In addition to these available sources of liquidity, the company enjoys healthy financial flexibility as part of the Uno Minda Group.

Rating sensitivities

Positive factors – Over the medium term, the company's ability to demonstrate significant improvement in scale of operations and return indicators on a sustained basis, while maintaining a healthy financial risk profile, would be factored in favourably for a rating improvement.

Negative factors – Higher-than-projected debt-funded capex or investments, including inorganic, which lead to a sustained weakening of key credit metrics, such as Net Debt/OPBDITA above 1.5x, 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	For arriving at the ratings, ICRA has considered the consolidated financials of MIL. As on March 31, 2021, the company had 13 subsidiaries, 4 associate companies and 11 JVs, which are enlisted in Annexure-2.

About the company

MIL, the flagship company of the Uno Minda Group, is one of the most diversified auto component manufacturers in India, with a presence across multiple product segments, such as automotive switches, lighting, acoustics, alloy wheel and die-casting, seatings and others. It is a leading domestic player in automotive switches and automotive horns, and the third-largest player in automotive lighting systems, and among the leading players for automotive seatings. MIL's segment-wise exposure is also well diversified, deriving 47% of its revenues from the 2W and 3W segments, and the rest from the 4Ws. The various businesses are operated either directly under the standalone entity or through various JVs/subsidiaries of the company.

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. In April 2013, MIL acquired Clarton Horn, a Spanish horn manufacturer, making it a global player in the PV horns market. In FY2017, to expand its automotive lighting business, MIL acquired 100% stake in Rinder India Private Limited, along with stake in some group companies. In FY2018, MIL acquired an 80% stake in iSYS RTS GmbH (for ECUs and controllers); and in FY2020, it acquired 100% stake in Delvis GmbH, along with two wholly owned subsidiaries, to strengthen presence in automotive lightings. In FY2019, MIL announced the acquisition of HSSL and its 51% JV, HFRL, to enter the automotive seating space, which was completed in the current fiscal.

The company has also set up multiple JVs with global automotive majors, helping it expand its product portfolio besides strengthening its content per vehicle with OEMs as well as gain technological knowhow. These include Minda Kosei (manufactures alloy wheels for PV OEMs), Minda TG Rubber (manufactures brake and fuel hoses), Roki Minda (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 into 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)

MIL Consolidated	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	6,222.9	6,374.2	1,602.6
PAT (Rs. crore)	175.0	224.3	29.9
OPBDIT/OI (%)	11.5%	11.5%	9.2%
PAT/OI (%)	2.8%	3.5%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.3	NA*
Total Debt/OPBDIT (times)	1.8	1.6	NA*
Interest Coverage (times)	7.6	9.9	7.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*Balance sheet figures not available for Q1 FY2022

Note: Amount in Rs. crore; All calculations are as per ICRA research

Source: Company Annual Reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				Aug 27, 2021	Jun 22, 2021	Aug 20, 2020	Jul 17, 2020 Apr 13, 2020	Oct 14, 2019 Sep 4, 2019 May 22, 2019	Feb 26, 2019 Nov 27, 2018 Oct 10, 2018 Jul 24, 2018 Apr 19, 2018		
1	Term Loan	Long Term	75.0	75.00	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Cash Credit	Long Term	240.50	46.5	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	Long Term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non-fund Based Limits	Short Term	34.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short Term	100.0	50.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

@ Under watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Non-fund Based Limits	Simple
Commercial Paper	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan I	FY2019	Repo-rate linked	FY2024	75.00	[ICRA]AA+ (Stable)
NA	Cash Credit	NA	NA	NA	240.50	[ICRA]AA+ (Stable)
NA	Non-fund Based Limits	NA	NA	NA	34.50	[ICRA]A1+
NA	Commercial Paper	Not placed currently			100.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Minda Kyoraku Limited	67.60%	Full Consolidation
MI Torica India Private Limited	60.00%	Full Consolidation
ISYS RTS, GmbH, Germany	80.00%	Full Consolidation
Global Mazinkert S. L.	100.00%	Full Consolidation
Minda Kosei Aluminum Wheel Private Limited	69.99%	Full Consolidation
PT Minda Asean Automotive	100.00%	Full Consolidation
Sam Global Pte 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 Delvis GmbH	100.00%	Full Consolidation
Harita Fehrer Limited	100.00%	Full Consolidation
Minda Westport Technologies Limited (erstwhile 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
Minda TG Rubber Private Limited	49.90%	Equity Method
Kosei Minda Mould India Private Limited	49.90%	Equity Method
Tokai Rika Minda India Private Limited	30.00%	Equity Method
Rinder Riduco, S.A.S. Colombia	50.00%	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

Source: Minda Industries Limited

Note: ICRA has taken a consolidated view of the parent (MIL), its subsidiaries and associates while assigning the ratings.

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