April 13, 2020

Minda Industries Limited: Long-term rating placed on watch with negative implications; 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	185.00	[ICRA]AA @; Placed on rating watch with negative implications
Cash Credit Facilities	117.50	117.50	[ICRA]AA @; Placed on rating watch with negative implications
Non-fund Based Limits	37.00	37.00	[ICRA]A1+; Reaffirmed
Unallocated	10.50	10.50	[ICRA]AA @; Placed on rating watch with negative implications
Total Bank Lines	**350.00**	**350.00**	
Commercial Paper Programme	60.00	60.00	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating action of Minda Industries Limited (MIL) follows the impact of the novel coronavirus (Covid-19) outbreak on the Indian auto component industry and is in line with ICRA's negative outlook for the sector. Following the rapid proliferation of the disease both globally and in India, the Government of India imposed a 21-day nationwide lockdown to curb the contagion. The unprecedented, large-scale lockdown has disrupted production at automobile OEMs and their supply chain from March 2020 onwards.

In addition to the production disruptions, the demand shock on account of the pandemic could be significant, going forward, in an already weak demand environment. Automotive demand, both for the commercial and consumer segments (passenger vehicles or PVs and two-wheelers or 2Ws), has contracted sharply in recent weeks following the lockdown and is likely to remain muted in the near-term owing to subdued consumer sentiments. While the strength of the eventual recovery will be a function of various factors—like the duration of the lockdown, the pace at which normal business activity resumes and the quantum of Government and regulatory support—a relatively prolonged period of curtailed automotive demand, given the discretionary nature of the spend, is likely.

With approximately 84% of revenues derived from the domestic automotive market, MIL's business prospects remain linked to underlying demand trends in the Indian Automobile industry. An extended period of demand slowdown, as witnessed currently, could result in weak financial performance, despite some flexibility that the company might have in pruning down costs. Additionally, the ramp-up in demand and production is likely to be gradual, even after lifting of the lockdown, on concerns of macro-economic slowdown. In likelihood of sharp downward revision in schedules from OEMs, and delayed ramp up for new greenfield plants being set up by the company, MIL's earnings and cash flows are likely to weaken over the near-term (vis-à-vis earlier expectations).

Given the current environment, the liquidity cushion between cash balances and available lines of credit, and debt servicing requirements are key rating drivers. MIL's liquidity remains comfortable, supported by cash and bank balances of approximately Rs. 250 crore at the consolidated level, and buffer available in the form of unutilised working capital limits of approximately Rs. 115 crore at the standalone level as of March 31, 2020. The company has also applied for a moratorium on debt servicing on some loans under the RBI forbearance scheme, which is likely to give some support on repayments till May 2020. While the liquidity buffer appears adequate in light of the current debt servicing obligations, fixed costs per month, including employee expenses and other overheads, will weaken the liquidity position to an extent in the event of a prolonged production shutdown or significantly lower demand. Accordingly, ICRA will continue to monitor the situation as it evolves over the near-term and assess its impact on the credit profile of MIL.

ICRA has also noted the acquisition of Toyoda Gosei South India Limited (TGSIN) announced to the stock exchanges on March 31, 2020. As per the disclosure, MIL's joint venture, TG Minda (where MIL holds 49.9% stake) would be acquiring 95% stake in TGSIN for a consideration of approximately Rs. 130 crore by September 2020. MIL's contribution to the same would be Rs. 33.46 crore through a rights issue in TG Minda. The acquisition would support MIL in enhancing its kit value in the passenger vehicle space through addition of new plastic moulded components to its product portfolio. ICRA does not expect the impact on MIL's consolidated financials to be material, given that TG Minda is not consolidated with MIL. Nevertheless, ICRA would continue to monitor MIL's inorganic growth pursuits, and their impact on the company on an ongoing basis and take appropriate rating action on a case-to-case basis.

ICRA notes that MIL had sought a moratorium on payments from its lenders until May 31, 2020 and the lenders have approved the same, as allowed per the 'COVID-19 - Regulatory Package' announced by the Reserve Bank of India on March 27, 2020. The above rescheduling of loans has been factored in the ratings.

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, 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 Harita Seating Systems Limited (HSSL) and Harita Fehrer Limited (HFRL), which would add automotive seating systems to its product portfolio.

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 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 Commerical Vehicle (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 most 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, macro-economic slowdown, liquidity challenges, impending BS-VI emission norm implementation and high inventory levels in the system. This would be further exacerbated over the near-term by the COVID-19 outbreak. Accordingly, MIL's earnings over the near-term are likely to weaken.

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 Rs. 250-crore 2W alloy wheel plant project and the Rs. 100-crore sensor plant project coming up in collaboration with Sensata—besides regular maintenance and technological upgradation requirements. In addition to the debt availed for these projects, the HSSL acquisition also has the 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

Despite the moderation in cash flow generation due to the COVID-19 outbreak and general slowdown in the automotive industry, MIL's liquidity position remains supported by adequate unutilised working capital limits of about Rs. 110 crore, and cash balances of approximately Rs. 250 crore at the consolidated level. Although the debt repayment obligations would increase over the near term, ICRA expects the company to meet them from its available liquidity buffers and cash flows, once operations resume after the lockdown. In addition to these available sources of liquidity, being part of the Uno Minda Group, the company enjoys healthy financial flexibility.

Rating sensitivities

Positive triggers – Under the current scenario, a rating upgrade remains unlikely. However, over the medium term, 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 – Significant deterioration in earnings on account of the COVID-19 outbreak or 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 or 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 its revenues from the 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 (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 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 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 (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 last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019		FY2018
					13-Apr-2020	4-Sep-2019	27-Nov-2018	10-Oct-2018	7-Sep-2017
1	Term Loan	Long Term	185.0	180.75	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Cash Credit	Long Term	117.50	53.44	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	Long Term	10.50	-	[ICRA]AA @	[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+
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* *@: On rating watch with negative 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	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 @
NA	Term Loan II	FY2019	MCLR linked	FY2024	85.00	[ICRA]AA @
NA	Cash Credit	NA	NA	NA	117.50	[ICRA]AA @
NA	Non-fund Based Limits	NA	NA	NA	37.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	10.50	[ICRA]AA @
NA	Commercial Paper	NA	NA	7-365 days	60.00	[ICRA]A1+

Source: Minda Industries Limited *@: On rating watch with negative implications*

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
Delvis GmBH	100.00%	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

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan
+91 1244545328
shamsherd@icraindia.com

Sruthi Thomas
+91 1244545822
Sruthi.thomas@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumkar@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999