

July 17, 2020

## Minda Industries Limited: Rating of [ICRA]A1+ assigned for enhanced commercial paper programme

### 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 @; Outstanding
Cash Credit Facilities	117.50	117.50	[ICRA]AA @; Outstanding
Non-fund Based Limits	37.00	37.00	[ICRA]A1+; Outstanding
Unallocated	10.50	10.50	[ICRA]AA @; Outstanding
<b>Total Bank Lines</b>	<b>350.00</b>	<b>350.00</b>	
Commercial Paper Programme	60.00	100.00	[ICRA]A1+; Assigned to enhanced limits

\*Instrument details are provided in Annexure-1

@: On rating watch with Negative implications

### Rationale

The ratings of Minda Industries Limited (MIL) continue to factor in its established market position within the automotive component sector in India, its well-diversified business profile with presence across automotive and multiple product segments, and strong technological collaborations it has in place to enhance its business prospects. Despite expectations of pressure on its earnings in the current fiscal on account of challenges brought about by the novel coronavirus (Covid-19) pandemic, ICRA believes MIL's comfortable liquidity profile and financial flexibility, as the flagship company of the Uno Minda Group, would support it in tiding over this phase.

MIL enjoys a strong business profile characterised by market leadership across multiple product segments, strong customer relationships and well-diversified revenue streams. The company is the largest supplier of automotive switches for passenger vehicles (PVs) and two-wheeler (2W) segments and 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 lighting products in the automotive original equipment manufacturer (OEM) segment. 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's business profile is characterised by healthy diversification across product segments, OEMs and automotive segments. In FY2020, the company derived 37% of its consolidated revenues from automotive switches, 23% from automotive lightings, 14% from aluminium die-castings (including PV alloy wheels) and 12% from automotive horns. In addition to components such as blow-moulded parts, batteries, rubber hoses, box-build assemblies, electronic controller units (ECUs), etc, which constituted the remaining 14% of its consolidated revenues, MIL also has presence in other product segments like air filters, infotainment systems, air bags, speakers etc. 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-&<sup>1</sup>/[ICRA]A2+&), would support further diversification of the business profile, with product portfolio expanding to include automotive seating as well and segment diversification improving to include commercial vehicles (CVs) and tractors too.

MIL is also setting up a 2W alloy wheel plant, which would commence operations in Q2 FY2021, further expanding its product offerings. Though the investment in setting up the alloy wheels facility is sizeable at Rs. 250 crore, the business risk is mitigated partially by a confirmed order from a leading 2W OEM. Despite the current challenges on account of the pandemic, 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.

Despite these inherent strengths, MIL's long-term rating continues to be on Rating Watch with Negative Implications, considering the impact of the Covid-19 pandemic on the Indian auto component industry, and is in line with ICRA's Negative outlook for the sector. The unprecedented, large-scale lockdown has disrupted production at automobile OEMs and their supply chain from March 2020 onwards, and although operations have resumed in May 2020, the ramp up has been gradual. With two months of negligible production and gradual ramp-up in the subsequent months, ICRA believes the pressure on earnings would be high in the current fiscal, which coupled with external borrowings undertaken for funding its greenfield capex and investments, would constrain its credit metrics. Nevertheless, ICRA would continue to monitor the situation with respect to stabilisation of operations, ramp-up of the greenfield facilities (for 2W alloy wheels and sensors), funding mix adopted for further investments and the impact of these on MIL's credit profile, and take appropriate rating actions accordingly.

## 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 86% of the company's consolidated revenues in FY2020. In other product segments, such as 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 37% of the consolidated revenues are derived from automotive switches, 23% from lighting, 14% from aluminium die-casting, 12% from horns, and the rest from products such as 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.

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<sup>1</sup>On Watch with Developing Implications

The company's customer exposure is 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 help in increasing MIL's presence in the commercial vehicle (CV) segment. Geographically, it derives 81% 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 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 DAPs, Sensata for sensors, and KPIT for telematics, among others. These collaborations have helped MIL to expand its product portfolio and content per vehicle with the 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 such as 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 pandemic coupled with slowdown in domestic market likely to result in muted performance in near term** - As MIL derives most of its revenues (81% in FY2020) from the domestic automotive market, its earnings remain susceptible to the inherent cyclicality of the market. The domestic automotive market has been undergoing a sharp slowdown over the past few quarters because of multiple headwinds, such as increasing ownership costs, macro-economic slowdown, liquidity challenges, impending BS-VI emission norm implementation and high inventory levels in the system. This has been further exacerbated in the recent months by the Covid-19 pandemic and the nationwide lockdown imposed in India to combat the pandemic. Accordingly, MIL's earnings have been impacted in Q1 FY2021, and are expected to remain muted over the near term till operations scale up to normal levels.

**Increased reliance on external borrowings over recent years to fund investment and capex requirements** – During FY2019-FY2020, MIL availed sizeable debt to fund its capex requirements and investments related to acquisitions and consolidation exercise within the Group. At the standalone level, it 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, the acquisition of HSSL also has the potential to increase leverage, if its 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 0.4-0.8 times and Total Debt/OPBDITA in the range of 1.3-2.0 times. However, ICRA believes that MIL's recently announced plans of raising Rs. 250 crore through rights issuance, has potential to reduce the overall leverage, if and when it materialises.

**Recently set up JVs in nascent stages of operations might require medium-term funding support from MIL –** Entities like Minda Onkyo, Minda TTE and Minda Katolec, which are at present in the 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 pandemic and general slowdown in the automotive industry, MIL’s liquidity position remains **adequate**, supported unutilised working capital limits of about Rs. 110 crore, and consolidated cash balances of Rs. 327 crore (as on March 31, 2020). Although the debt repayment obligations would increase over the near term, ICRA expects the company to meet these from the available liquidity buffers and cash flow generation, as operations scale up gradually post the lockdown. In addition to these available sources of liquidity, the company enjoys healthy financial flexibility being a part of the Uno Minda Group.

### Rating sensitivities

**Positive triggers –** Under the current scenario, an upgrade in ratings remains unlikely. However, over the medium term, a sustained reduction in capex and investment outflow, leading to steady reduction in debt levels, supporting its financial risk profile, could lead to a positive rating action. Ramp-up in the new JVs and ongoing projects to profitable levels, such that the operations are self-sustainable, remain imperative.

**Negative triggers –** Slower-than-expected ramp up in the company’s greenfield projects or higher-than-projected debt-funded capex or investments, which lead to weakening of key credit metrics, like TD/OPBDITA above 2 times and interest cover below 6 times, could lead to a negative rating action.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on MIL’s consolidated financial statements

### About the company

MIL, the flagship company of the N.K. Minda Group, is one of the most diversified auto component manufacturers in India with 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, it 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 well diversified, with 51% of its revenues derived 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, the company acquired Clariton 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 Centre (part of the Spanish Rinder Group). In FY2018, it 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 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 (audited consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	5,908.6	5,465.1
PAT (Rs. crore)	320.6	174.7
OPBDIT/OI (%)	12.5%	11.6%
PAT/OI (%)	5.4%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.3
Total Debt/OPBDIT (times)	1.5	2.0
Interest Coverage (times)	11.7	7.0

*Note: FY2020 financials incorporate the impact of Ind AS 116 accounting standards, whereas FY2019 does not*

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**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding <sup>^</sup>	Current Rating	Earlier Rating	FY2020	FY2019		FY2018
					17-Jul-20	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 @	[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 @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	Long Term	10.50	-	[ICRA]AA @	[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+	[ICRA]A1+
5	Commercial Paper	Short Term	100.0	30.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

@: On rating watch with negative implications

<sup>^</sup>As on March 31, 2020

### 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](http://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	100.00	[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
MindaKyoraku 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 MindaAsean Automotive	100.00%	Full Consolidation
Sam Global Pte Limited	100.00%	Full Consolidation
MindaRinder 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
MindaKatolec Electronics Services Private Limited	51.00%	Full Consolidation
DelvisGmBH	100.00%	Full Consolidation
Minda Emer Technologies Limited	49.10%	Equity Method
RokiMinda Co. Private Limited	49.00%	Equity Method
Minda TTE DAPS Private Limited	50.00%	Equity Method
MindaOnkyo Private Limited	50.00%	Equity Method
DensotenMinda Private Limited	49.00%	Equity Method
Minda D Ten Private Limited	51.00%	Equity Method
Toyoda GoseiMinda India Private Limited	47.80%	Equity Method
Kosei Minda Mould India Private Limited	49.90%	Equity Method
MindaNexGenTech Limited	26.00%	Equity Method
Yogendra Engineering	48.90%	Equity Method
Auto Components	48.90%	Equity Method
Kosei MindaAluminum Company Private Limited	30.00%	Equity Method

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