

August 20, 2020

Minda Industries Limited: Ratings reaffirmed at [ICRA]AA/A1+; Long-term rating removed from rating watch with negative implications and Stable outlook assigned

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 (Stable); Reaffirmed, removed from rating watch with negative implications and Stable outlook assigned
Cash Credit Facilities	117.50	117.50	[ICRA]AA (Stable); Reaffirmed, removed from rating watch with negative implications and Stable outlook assigned
Non-fund Based Limits	37.00	37.00	[ICRA]A1+; Reaffirmed
Unallocated	10.50	10.50	[ICRA]AA (Stable); Reaffirmed, removed from rating watch with negative implications and Stable outlook assigned
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

ICRA had placed the long-term ratings of Minda Industries Limited (MIL) on rating watch with negative implications in April 2020, following the outbreak of the Covid-19 pandemic, and the expected impact on operations. The rapid proliferation of the virus within the country had mandated the Government to undertake strict lockdown measures, leading to production shutdowns at most manufacturing units, including that of auto-ancillaries like MIL. Additionally, the impact of the pandemic on automotive demand was expected to be severe, given likely deferral of discretionary purchases, thereby delaying recovery even after resumption of operations.

Although the pandemic has disrupted operations across the automotive value chain, including for ancillaries like MIL, the ramp-up since resumption of operations has been healthy, supported by revival in the two-wheeler (2W) segment, from which MIL derives about half of its revenues. The 2W segment has reported steady ramp-up from May 2020 onwards, on the back of healthy rural demand, as well as an increased preference for personal mobility. Accordingly, many of MIL's plants have already reverted to pre-Covid operational levels. Additionally, MIL has recently announced fund-raising plans of Rs. 250 crore through the rights issuance route, which would be partially used to reduce overall debt levels, thereby strengthening its capital structure. Furthermore, the company aims to utilise the balance funds for its committed investments in TG Minda and TR Minda.

Additionally, the company also plans to raise funds through the NCD route to replace its existing higher-cost borrowings. Despite some pressure on earnings in the current fiscal on account of the pandemic, ICRA expects these fund-raising plans to support improvement in overall credit metrics over the medium term. Given these developments, ICRA has removed the long-term ratings from watch with negative implications and assigned a Stable outlook to the long-term rating.

The ratings continue to factor in MIL's established market position within the automotive component sector in India, its well-diversified business profile with presence across automotive and multiple product segments, and the strong

technological collaborations it has in place to enhance its business prospects. 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 2W segments 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 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 and electronic controller units (ECUs), etc, which constituted the remaining 14% of its consolidated revenues, MIL is present in other product segments like air filters, infotainment systems, air bags and 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-&1/[ICRA]A2+&), would support further diversification of its business profile, with its product portfolio expanding to include automotive seating as well and segment diversification improvement to include commercial vehicles (CVs) and tractors too.

MIL is also setting up a 2W alloy wheel plant, which would commence operations from Q2 FY2021, further expanding its product offerings. Though the investment in setting up the alloy wheels facility is sizeable at Rs. 330 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. The investment in the sensor project (Rs. 175 crore) has also largely been completed, and supplies to OEMs have commenced, which would also contribute positively to revenues and earnings, going forward.

Nonetheless, ICRA notes that the investments for capacity addition and consolidation in recent years have increased overall debt levels for MIL, especially in the standalone entity. Coupled with the slowdown in the domestic automotive industry over the past two years, which has moderated its earnings, its credit metrics and return indicators have weakened from FY2018 levels. Moreover, this is likely to continue in the current fiscal given the production shutdowns for the major part of Q1 FY2021, and the incremental overheads from the two greenfield projects. Nevertheless, the company's fund-raising plans to reduce cost of debt and to reduce overall borrowings through the NCD and equity routes, respectively, are expected to arrest the extent of moderation in credit metrics to some extent.

ICRA also notes that the company's sizeable capex and investment requirements are largely complete, and only maintenance capex and minimal investments in group companies are expected incrementally over the near term. Thus, even as earnings pressure exist in the current fiscal on account of challenges brought about by the 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. 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.

The outlook on the long-term ratings is Stable, given ICRA's expectation that MIL's business and financial risk profiles are 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

¹ *On Watch with Developing Implications*

wheels and sensors ramp up, and the HSSL acquisition fructifies. The financial risk profile would also continue to remain comfortable, with the fund-raising plans expected to aid in overall debt reduction and strengthen the capital structure.

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 as well, 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 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 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 HSSL and 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 account for 51% of the revenues, while PVs account for the rest. The HSSL acquisition would also help increase MIL's presence in the 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 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, Toyota 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 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, like increasing ownership costs, macro-economic slowdown, liquidity challenges, BS-VI emission norm implementation and high inventory levels in the system. This has been further exacerbated in recent months by the Covid-19 pandemic and nationwide lockdown imposed in India for an extended period to combat the same. Accordingly, MIL's earnings have also been impacted during Q1 FY2021, and are expected to remain so till operations normalise.

Increased reliance on external borrowings over recent years to fund investment and capex requirements - Over the FY2019-FY2020 period, MIL 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. 330-crore 2W alloy wheel plant project and the Rs. 175-crore sensor plant project in collaboration with Sensata—besides regular maintenance and technological upgradation requirements. The acquisition of Delvis GmbH in FY2020 was also partially debt-funded and has increased overall consolidated debt levels. In addition, the acquisition of HSSL 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 0.3-0.6x and Total Debt/OPBDITA in the range of 1.1-2.5x. However, ICRA believes that MIL's recently announced plans of raising Rs. 250 crore through rights issuance, has potential to reduce the overall leverage, when it materialises.

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 pandemic and general slowdown in the automotive industry, MIL's liquidity position remains adequate, supported by unutilised working capital limits of about Rs. 45 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 after the lockdown. In addition to these available sources of liquidity, the company enjoys healthy financial flexibility as part of the Uno Minda Group.

Rating sensitivities

Positive triggers – 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. In addition, ramp-up in new JVs and ongoing projects to profitable levels, such that their operations are self-sustainable, remains imperative.

Negative triggers – Slower-than-expected ramp up in the company's greenfield projects or higher-than-projected debt-funded capex or investments, including inorganic, which lead to weakening of key credit metrics, like TD/OPBDITA above 2x and interest cover below 6x on a sustained basis, 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 automotive switches (37%), lighting systems (23%), acoustics (12%), alloy wheel and die-casting (14%) and other segments, including safety systems such as airbags, infotainment systems, blow molding based components, intake manifolds, fuel cap, auto gas and automotive 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). 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. MIL caters to most of the key automobile OEMs in the 2W and PV segments, including MSIL, Bajaj Auto Limited, Hero Motocorp Limited, Mahindra & Mahindra Limited, Toyota Kirloskar Motors Limited and Tata Motors Limited. 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 the auto component business). Some of the key acquisitions by the company include Clarton Horns (global players in horns for PVs in April 2013), the Rinder Group (engaged in 2W lighting solutions in FY2017), iSYS RTS (presence in ECUs and controllers in FY2018) and Delvis (presence in lighting solutions in FY2020). 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 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, and in FY2020, it acquired 100% stake in Delvis GmbH, along with two of its wholly owned subsidiaries, Delvis Solutions and Delvis Products, to strengthen its presence in the automotive lightings segment. 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 expand its product portfolio besides strengthening its content per vehicle with OEMs as well as gain technological knowhow over the years. These include Minda Kosei (manufactures alloy wheels for PV OEMs), 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.

In FY2020, the company also announced the merger of four of its wholly-owned subsidiaries with itself. This includes Minda Distribution and Services (trading wing of the Group), MJ Casting Limited (manufactures aluminium die-casting products for 2W OEMs and Tier I suppliers), Minda Auto Component Limited and Minda Rinder Private Limited (manufactures automotive lightings for 2W OEMs). The same has been completed and effected during the year.

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

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 [^]	Current Rating	Earlier Rating		FY2020	FY2019		FY2018
					20-Aug-20	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 (Stable)	[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 (Stable)	[ICRA]AA @	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Unallocated	Long Term	10.50	-	[ICRA]AA (Stable)	[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+	[ICRA]A1+
5	Commercial Paper	Short Term	100.0	30.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

@: On rating watch with negative implications

[^]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

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 (Stable)
NA	Term Loan II	FY2019	MCLR linked	FY2024	85.00	[ICRA]AA (Stable)
NA	Cash Credit	NA	NA	NA	117.50	[ICRA]AA (Stable)
NA	Non-fund Based Limits	NA	NA	NA	37.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	10.50	[ICRA]AA (Stable)
NA	Commercial Paper	NA	NA	7-365 days	100.00	[ICRA]A1+

Source: Minda Industries Limited

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

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