

## Minda Industries Limited

Instrument	Amount	Rating Action
	(Rs. Crore)	September 2016
Commercial Paper /Short-Term Debt Programme	<b>30.00</b>	Assigned [ICRA]A1+
Term Loan Facilities	20.17	Rating outstanding [ICRA]AA- (Stable)
Cash Credit Facilities	98.50	Rating outstanding [ICRA]AA- (Stable)
Non Fund Based Facilities	27.00	Rating outstanding [ICRA]A1+
Unallocated	11.33	Rating outstanding [ICRA]AA- (Stable)

ICRA has assigned a Short-Term rating of [ICRA]A1+ (pronounced ICRA A One Plus) to the Rs. 30 crore Commercial Paper/Short-Term Debt Programme of Minda Industries Limited. ICRA also has Long-Term rating of [ICRA]AA- (pronounced ICRA double A minus) and Short-Term rating of [ICRA]A1+ outstanding on the Rs. 157 crore Working Capital Facilities and Term Loans of the Company.<sup>†</sup> The outlook on the Long-Term rating is 'Stable'.

The assigned rating takes into account the steady improvement in MIL's consolidated financial profile aided by strong growth in revenues as well as profitability indicators across key product segments like lighting, switches and horns and steady ramp-up of operations at newly set-up manufacturing units on account of increased orders from existing OEMs and acquisition of new customers. While significant improvement in profitability at standalone level was driven by increasing operating leverage, increasing cost efficiencies and favorable change in product mix, at consolidated level, the margin expansion was on account of steady improvement in financial performance of key subsidiaries/JVs such as Clarton Horns, MJ Casting Limited and Minda Kyoraku Limited. MIL has also been gaining market share across key segments, especially in the lighting segment, which has further got cemented by the acquisition of Rinder Group in June 2016. The recent acquisition has added three manufacturing plants (Pune, Haryana and Colombia) catering to the domestic and foreign two-wheeler lighting industry and a technical centre that would improve MIL's share of business in the lighting segment and strengthen the technical expertise, respectively.

Although at a consolidated level, the debt levels have increased in FY2016 and in Q1 FY2017 on account of greenfield investments at Minda TG Rubber Pvt. Ltd. and Minda Kosei Aluminum Wheel Pvt. Ltd. (Minda Kosei) and the acquisition of Rinder Group, the overall credit metrics have improved (interest cover increased from 6.1x to 9.3x in FY2016, the DSCR improved from 3.8x to 5.2x in FY2016) and continue to remain strong (gearing at 0.8x in FY2016) on account of stronger cash accruals and strengthening of profitability.

MIL is currently in the process of consolidating majority of auto component business within the group and shall pursue in-organic growth opportunities through increasing stake in current JVs and subsidiaries or investing in other related group companies in the medium term. While ICRA expects MIL's future acquisitions to be funded in a manner that sustains the company's credit profile, the impact of such acquisitions would be evaluated on a case-to-case basis.

Over the last one year, the company acquired Rinder Group, part stake in Kosei Minda and has proposed to increase stake in Roki Minda. In addition, the company has also increased stake in three group companies such as (MJ casting Limited, PT Minda Asean Automotive and Minda Vietnam Industries Limited) while investing in Greenfield ventures Minda TG Rubber and Minda-Kosei that would expand the product portfolio further.

Going forward, any acquisition of stake in group companies is not expected to impact credit metrics at standalone level as funding for the same would be supported by issuance of equity or preference capital to promoter/group companies. ICRA expects MIL's credit profile to continue to remain strong with steadily improving profitability, gradual reduction in long-term debt and limited greenfield investment plans in the medium term further strengthened by the management's focus on maintaining capital structure below 1x. MIL's consolidated profitability is also expected to improve in the medium term on the back of expected improvement

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications



in capacity utilization at Clarton Horns, Minda Kosei and Minda TG Rubber, changing product mix in favor of high value added products (for eg. Over-head console unit in the lighting segment), cost reduction measures and synergy benefits from the Rinder Group acquisition in the form of sourcing, technical support among others.

The ratings continue to draw comfort from MIL's diversified product portfolio that is increasingly catering to a broad-based customer profile across new geographies and is backed by strong in-house technical capabilities. MIL's standalone product portfolio is well diversified with the company engaged in the manufacture of switches (57.7% of total sales), lighting systems (24.2% of total sales), horns (12.7% of total sales), batteries (2.9% of total sales), CNG/LPG kits (0.2% of total sales) and fuel caps (2.0% of total sales) for automotive applications. The portfolio further expands into blow molding, aluminum die-casting, alloy wheels etc. at the consolidated level, thereby providing scope to grow while offering a comprehensive solution to the automotive OEM<sup>1</sup>s. MIL has an established market presence as a supplier of automotive switches to all major 2W manufacturers in the domestic market. The company also benefits from the strength of its in-house technical team in the switch, lighting and horn divisions.

MIL's consolidated business currently has high concentration on the 2W segment (64% contribution to total sales in FY 2016); however, the company has progressed in its efforts to diversify its customer base to include Passenger vehicle (PV), commercial vehicle and off-highway segments with the acquisition of new clients in key segments and increased orders from existing 4W OEMs. The acquisition of Clarton Horn (CH)<sup>2</sup> in April 2013, has supported the Horns segment of MIL by increasing revenues and also added to geographical diversification by opening the European and American markets. With CH, the company has increased its global market share in horns, coming second to market leader Fiamm<sup>3</sup> and has gained access to better technology and global clients.

ICRA factors in the strong technical support MIL derives from JV partner Toyoda Gosei at Minda TG Rubber and Kosei Group of Japan (30% share) at Minda Kosei and further the assured business of alloy wheels from MSIL and M&M at Minda Kosei. The profitability will be however be subject to the level of scalability in the gestation period, inherent project execution risk in the initial phase and any possibility of the upliftment of the Anti Dumping Duty on imported Chinese Wheels (for Minda Kosei).

### Recent Results

In FY2016, MIL's (standalone) operating income at Rs. 1,469.9 crore reported growth of 7.2% over the corresponding previous period. The company's Profit before Depreciation, Interest and Tax at Rs. 141.0 crore reported growth of 23.1% in FY 2016 and Profit after Tax (PAT) increased to Rs. 79.4 crore in FY 2016, registering a growth of 49.2%. In Q1 FY2017, MIL's operating income grew by 17.5% to stand at Rs. 400.8 Crore and the PAT stood at Rs. 22.6 crore during the same period.

At a consolidated level, MIL's operating income grew by 13.5% to stand at Rs. 2,527.3 Crore in FY2016. The company's Profit before Depreciation, Interest and Tax at Rs. 238.3 crore reported a robust growth of 54.1% in FY 2016. MIL's (consolidated) Profit after Tax (PAT) increased to Rs. 110.9 crore in FY 2016, registering a growth of 69.8%. The PAT after Minority Interest stood at Rs. 111.1 crore in FY2016. In Q1 FY2017, MIL's operating income grew by 43.9% to stand at Rs. 766.6 Crore and the PAT after Minority Interest stood at Rs. 27.1 crore during the same period.

### Company Profile

Minda Industries Limited (MIL) is the flagship company of the N.K. Minda Group, a group having diversified business interests in the automotive space. The promoters own 70.9% stake in the company as on June 2016.

Set up in 1958 as a partnership firm, MIL was converted into a public limited company in 1992. The company is engaged in the manufacture of automotive switches (for two-wheelers, three-wheelers, and off-road vehicles) and automotive lighting systems (for two-wheelers, three-wheelers and four-wheelers). Besides, the company's product portfolio further diversifies into the manufacture of horns, automotive batteries, fuel caps, non-auto LED and CNG/LPG kits. The blow moulding division of the company was hived off to form Minda Kyoraku Limited, a

<sup>1</sup> Original Equipment Manufacturers

<sup>2</sup> CH is a Spain-based manufacturer of automotive horns for PV applications. CH's clients include global OEMs such as BMW, Daimler, Volkswagen etc.

<sup>3</sup> According to company data

JV with the Kyoraku (Japan) in FY2012. MIL's customers for automotive switches include Bajaj Auto Limited (BAL), TVS Motors Company (TVS), Hero Moto Corp Limited (HMCL), Honda Motorcycles and Scooters India Limited (HMSI), Suzuki Motorcycles India Private Limited (SMIPL) etc. The company supplies automotive lighting systems mainly to Maruti Suzuki India Limited (MSIL), Tata Motors Limited (TML), Mahindra and Mahindra (M&M), Renault-Nissan and General Motors India (GMI). The major customers of horns division include BAL, TVS, HMSI, HMCL and TML. MIL has manufacturing facilities located in India at Sonipat (Haryana), two in Pune (Maharashtra), two in Manesar (Haryana), Aurangabad (Maharashtra), Hosur and Chennai (Tamil Nadu), and Pantnagar (Uttaranchal).

The company further acquired Clarton Horn, a Spanish horn manufacturer in April 2013, making it a global player in the horns market for 4W. MIL's other large subsidiaries include Minda Kosei (rated [CARE]A (SO) 'rating on credit watch' and manufactures alloy wheels for MSIL and M&M at its Bawal plant), PT Minda and Sam Global (manufacture switches and lights based out of Indonesia and Vietnam respectively), Minda Distribution and Services (trading wing of the group) and M.J. Casting Limited (manufactures aluminium die-casting products for TVS, HMSI and WABCO and is rated [ICRA]A+(SO)/Stable/A1(SO) and [ICRA]BBB-/Stable/A3 on standalone basis). MIL recently acquired stake of 100% in Rinder Group for Euro 7.2 million equity consideration (manufactures lighting systems in India and Colombia and has a Technical Centre in Spain), 51% in Minda TG Rubber Pvt. Ltd. for Rs. 17.85 crore equity consideration (manufactures brake and fuel hoses), 30% in Kosei Minda Limited for Rs. 12.28 crore equity consideration (manufactures alloy wheels), 49% in Roki Minda Company Private Limited for Rs. 42.97 crore equity consideration (manufactures Air Intake Systems and Carbon Canisters). In June 2016 MIL's joint venture with Panasonic was terminated as the former sold its global acid-lead battery business. Although Panasonic exited the business (MIL acquired existing assets of Rs. 98 crore at Rs. 1.8 crore) MIL shall continue to make efforts to ready sample of four wheeler batteries from its Pantnagar plant and commence full scale operations in the near term. The company shall continue to derive technical support from Panasonic in the near term as per the conditions of the JV.

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