Minda Kosei Aluminum Wheel Private Limited

January 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	240.39 (Enhanced from 124.72)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	35.00 (Enhanced from 6.65)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**275.39 (Rs. Two Hundred Seventy-Five Crore and Thirty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Minda Kosei Aluminum Wheel Private Limited (MKAWPL) continues to factor in MKAWPL's established business position as a leading manufacturer of alloy wheels to reputed original equipment manufacturers (OEMs, viz., Maruti Suzuki India Limited, Mahindra & Mahindra Limited and Suzuki Motor Gujarat Private Limited) and consistent improvement in operational performance despite pandemic-led disruptions as reflected in strong and better-than-envisaged profitability margins reported during FY21 (refers to the period April 01 to March 31), supported by its leadership position in aluminium alloy wheels segment in India, and comfortable financial risk profile characterized by low overall gearing and healthy debt coverage indicators. By virtue of its strong parentage (being a 70% subsidiary of Minda Industries Limited (MIL)), MKAWPL benefits from group synergies in the form of common business relationships, Minda's brand identity, integrated treasury, as well as capital, managerial and operational support. Furthermore, the ratings of MKAWPL continue to derive comfort from the strategic location of its plants and long-standing relationship with reputed OEMs. MKAWPL has been associated with these OEMs since inception, being part of the Uno Minda group and has managed to consistently gain business share on the back of regular investments in capacities and maintaining quality standards. The ratings, however, remain constrained by the company's customer concentration risk, its susceptibility to raw material price fluctuations, foreign exchange volatility risk and cyclical nature of the automobile sector. The ratings also factor in recent shortage in the semi-conductor chips, which is likely to impact the production & supplies of OEMs and in turn have an impact on auto ancillaries like MKAWPL. However, the management of MKAWPL has articulated that same is a temporary phenomenon and OEMs to whom the company supplies are looking at alternative sourcing arrangements to sort out the same. CARE Ratings believes that the company would be able to sustain its revenue and profitability in near term despite chip-led disruption.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in the scale of operations beyond Rs.1,000 crore with sustenance of profitability margins
- Sustained improvement in return on capital employed (ROCE) beyond 21%

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 20%
- Any un-envisaged debt-funded capital expenditure deteriorating its capital structure at above 0.50x
- Elongated operating cycle thereby impacting cash flow from operations

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations:

MKAWPL is promoted by MIL, the flagship company of the Minda group and the Kosei group, viz., Kosei International Trade & Investment Company holding 30% share in the company, which is one of the leading manufacturers of alloy wheels in Japan. The Chairman & Managing Director of MIL, Mr N K Minda, has more than three decades of experience in the automotive industry. Also, the operations are well supported through group of professionals having extensive work experience.

Strong Parentage:

MIL is the largest automotive switch, automotive seat and PV alloy wheel manufacturer and has an established market position within the automotive component sector in India, with a well-diversified business profile and strong technological collaborations alongside comfortable capital structure and healthy credit metrics, with regular infusion of funds through the equity route and lower dependence on external borrowings. MIL is one of the leading players in automotive components such as switches, seats, PV alloy wheels, acoustics, lightings and blow-moulded products. Its ability to augment and add new products to its repertoire coupled with key acquisitions to cover wide range of auto components has made it a formidable player in the entire auto component value chain. Furthermore, MIL has also raised funds to the tune of Rs.700 crore through the Qualified Institutional placement route in August 2021, which has strengthened its financial flexibility and will lend support to deleveraging and fund its growth organically and inorganically. The total operating income of MIL has grown at a compounded annual growth rate

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

(CAGR) of 13% over past three fiscal years ending FY21 and stood at Rs.6,374.20 crore with healthy PBILDT and PAT margins of around 12% and around 4% during FY21.

Established relationship with reputed customers
The company has established relationship with reputed OEMs, viz., Maruti Suzuki India Limited, Suzuki Motor Gujarat Private Limited and Mahindra & Mahindra Limited since inception. Though the sales appear to be concentrated, the risk is mitigated considering that the company has been able to leverage upon the long-standing relationship of the UNO Minda group with these OEMs due to its design/engineering capabilities, state-of-the-art manufacturing units and adherence to stringent quality standards.

Comfortable operational performance
The improved performance is supported by healthy capacity utilization levels over the years and despite auto industry grappling with slowdown in the recent past followed by Covid-19-led business disruptions, MKAWPL continued to report PBILDT margin more than 25% despite some moderation in the total operating income. Its ability to report strong profitability and healthy operational cash flows in presence of modest debt repayment stands testimony to its leadership position in the alloy wheel segment and its ability to pass on the additional cost burden of surging metal prices (aluminium) over the past few years. During FY21, scale of the company remained almost stagnant and stood at Rs.522.16 crore (PY: Rs.537.22 crore) on account of the pandemic-led disruptions in first two quarters of FY21, however, the sales picked up from subsequent quarters led by strong customer sentiments coupled with festive season demand. MKWAPL ranks amongst the top-three companies of the Minda group in terms of revenue contribution and profitability. Despite increase in aluminium prices, the company's PBILDT margin of the company stood comfortable at 28.19% in FY21 (PY: 30.04%) along with healthy return on capital employed of 18.80% as on March 31,2021 (PY: 20.31%). In H1FY22 (refers to the period from April 1 to September 30), company reported total income of Rs 338 crore despite business disruption caused by the second wave of COVID -19 and semi-conductor shortage.

H1FY22 Performance: The company has reported sales of Rs.338.18 crore upto September 2021 as against Rs.142.38 crore reported upto September, 2020. Due to the second wave of COVID 19, performance of the company was subdued whereby it reported top-line of Rs.144.38 crore in Q1FY22 as against Rs.17.28 crore during Q1FY21 and Rs.199.70 crore during Q4FY21.

Strong financial risk profile
The capital structure of the company has remained strong over the years with the overall gearing as on March 31, 2020 improving to of 0.24x (as against 0.30x as on March 31, 2020). The improvement was mainly on account of repayment of term loans amounting to Rs 20.59 crore during FY21 and accretion of profits to net worth. Further, the company's ROCE stood comfortable at 18.80% as on March 31, 2021 (PY: 20.31%). The debt coverage indicators also remained comfortable with PBILDT interest coverage at 11.22x (PY: 8.64x) and total debt/GCA at 0.92x as on March 31, 2021 (PY: 0.95x).

Strategic location of the plant
MKAWPL has two facilities for manufacturing of alloy wheels, in Bawal (Haryana) and Gujarat located in close proximity to its customers. The combined capacity stood at 21.60 lakh pieces per annum (ppa) as on March 31, 2021. The Bawal plant has a capacity of 14.40 lakh pieces per annum and supplies alloy wheels to Maruti Suzuki India Limited, Suzuki Motor Gujarat Private Limited (rated 'CARE AAA; Stable/ CARE A1+') and Mahindra & Mahindra Limited. The operations commenced with 7.20 lakh ppa in May 2016 and has been gradually ramped up with current running capacity of 14.40 lakh ppa. With further capex envisaged, this capacity will be increased by 7.20 lakh ppa.
The company has also developed another alloy wheel plant in Dekavada, Gujarat, with an annual capacity of 7.20 lakh ppa which became operational in March 2018 (commercial production started in April 2018). The plant caters for the requirements of Suzuki Motor Gujarat Private Limited. The company has developed a new line for LPDC technology for initial capacity of 3.60 lakh ppa in FY21.

Key Rating Weaknesses
Susceptibility to raw material price fluctuation and foreign exchange volatility risk
Aluminium is the key raw material used for manufacturing of alloy wheels. Till FY19, MKAWPL used to import its raw material through Kosei International, however, the company has started procuring its raw material from domestic market also mitigating foreign fluctuation risk to an extent and reducing the lead time for delivery. The demand for metals, especially aluminium, is cyclical, the prices of which are driven by demand and supply conditions prevalent in the market coupled with strong linkage with the global LME-driven prices. The company has a mechanism wherein any revision in the raw material prices is reset by the OEMs based on last billing and change in prices is accommodated with a lag of one quarter. Considering the foreign exchange volatility risk, the company has a policy of hedging a minimum of 50% and up to 100% of its outstanding forex position through forwards. The company reported exchange rate profit of Rs.2.07 crore during FY21 (PY: exchange rate loss of Rs.7.63 crore).

Cyclical nature of the automotive industry
The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to the sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to Tier II and Tier III suppliers.

Industry Outlook

CARE Ratings opines that overall credit profile of the passenger vehicle industry is expected to remain stable; however, headwinds include slower-than expected demand growth, sharp increase in RM cost and prolonged COVID-19 impact. During Q1FY22, demand in the industry has been impacted due to travel restrictions owing to second wave of COVID-19 and slowdown in production at OEMs. However, surge in exports during Q1FY22 is expected to partially mitigate the impact. While revenues in Q2FY22 would be driven by pent-up demand, H2FY22 sales would be on account of stronger demand from rebound in economic activities. The semi-conductor shortage is ongoing since November 2020, but has become a bottleneck, especially for the passenger vehicles segment. While until last year, when demand was a challenge, supply is becoming a bigger problem today due to the chip shortage, albeit a high demand for passenger vehicles. Maruti Suzuki India Limited being a market leader, is facing semi-conductor shortage impacting the automotive industry. It announced 60% of its production cut owing to this shortage.

Being associated with MSIL, chip shortage impacted the company's performance despite which the company reported turnover of Rs. 338 crore in H1FY22. With an easing COVID-19 situation in Malaysia thereby leading to ramping up of chipset production alongside lesser production cut announced by MSIL, the impact is not likely to be significant. However, the development in this regard shall be closely monitored over the next quarter.

Liquidity: Strong

The company has adequate liquidity marked by healthy gross cash accruals of Rs.125.91 crore vis-à-vis scheduled repayment obligations of Rs.26.14 crore during FY22 and modest cash and bank balance of Rs. 8.81 crore as on March 31, 2021. Going forward, the company has planned for capex of Rs.200 crore and Rs.40 crore in FY22 and FY23, out of which Rs.33 crore and Rs.40 crore would be routine in nature. The company has sufficient headroom to raise debt going forward with comfortable capital structure having an overall gearing way below 1x. The reliance on bank limits has remained low reflected from utilization of 11% for the past twelve months ending November 30, 2021, and has above unity current ratio with operational cash flows of Rs.40.59 crore as on March 31, 2021 (PY: Rs.219.70 crore).

Till FY21, working capital cycle remained low at around 30 days as high inventory holding for imported material was funded by usance LC of 90 days. However, due to increased landed cost of imported aluminium, the company is now obtaining raw material domestically against which advance payment is given reducing the creditors' period to 52 days (PY: 80 days). Furthermore, debtor realization period is 30-40 days.

Analytical approach: Standalone, after factoring in operational and financial linkages with the parent, Minda Industries Limited.

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Auto Ancillary Companies
Manufacturing Companies

About the Company

Minda Kosei Aluminum Wheel Private Limited (MKAWPL) was incorporated on March 23, 2015, for setting up alloy wheels manufacturing plant in Bawal (Haryana). The company is a 70:30 joint venture (JV) between Haryana-based Minda Industries Ltd (MIL) and Kosei International Trade and Investment Company Limited, Hong Kong (Kosei group), which is one of the leading manufacturers of alloy wheels in Japan.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H2FY22 (UA)
Total operating income	537.22	522.16	338.18
PBILDT	161.38	147.20	-
PAT	65.54	59.91	-
Overall gearing (times)	0.30	0.22	-
Interest coverage (times)	8.64	11.22	-

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	35.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	60.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	June, 2026	153.46	CARE AA-; Stable
Fund-based - LT-External Commercial Borrowings		-	-	Sept, 2024	26.93	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (26-Dec-18)
2	Non-fund-based - ST-BG/LC	ST	35.00	CARE A1+	1)CARE A1+ (03-Nov-21)	1)CARE A1 (31-Mar-21) 2)CARE A1 (03-Apr-20)	-	1)CARE A1 (26-Dec-18)
3	Fund-based - LT-Cash Credit	LT	60.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Nov-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Stable (03-Apr-20)	-	1)CARE A; Stable (26-Dec-18)
4	Fund-based - LT-Term Loan	LT	153.46	CARE AA-; Stable	1)CARE AA-; Stable (03-Nov-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Stable (03-Apr-20)	-	1)CARE A; Stable (26-Dec-18)
5	Fund-based - LT-External Commercial Borrowings	LT	26.93	CARE AA-; Stable	1)CARE AA-; Stable (03-Nov-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Stable (03-Apr-20)	-	1)CARE A; Stable (26-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Fund-based Limits	• Debt service coverage ratio not to fall below 1.10x • Leverage Ratio not to exceed 2.5x • Total Debt to EBIDTA not to exceed 3.25x
B. Non-financial covenants	
I Cash Credit	• Statement of stock and book debts, on a monthly basis, to be submitted latest by the 20th of subsequent month. Note: The utilization in CC will be determined by Drawing Power on the basis of monthly stock statements submitted. The computation drawing power would be as follows: Raw material (including stock in progress and Finished goods) and receivables - 25%

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-External Commercial Borrowings	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Sachin Mathur
Contact no.: +91-11-4533 3206
Email ID: sachin.mathur@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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