Minda Kosei Aluminum Wheel Private Limited

April 03, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	104.56 (Reduced from 180.39)	CARE AA- (RWP)	Placed on Rating Watch with Positive Implications
Long term / Short term bank facilities	35.00	CARE AA- / CARE A1+ (RWP)	Revised from CARE A1+; Placed on Rating Watch with Positive Implications
Long term / Short term bank facilities	60.00	CARE AA- / CARE A1+ (RWP)	Revised from CARE AA-; Stable Placed on Rating Watch with Positive Implications

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Minda Kosei Aluminum Wheel Private Limited (MKAWPL) have been placed under 'Rating watch with positive implications' in view of the recent announcement for the merger of MKAWPL with Uno Minda Limited (UML, the parent, formerly known as Minda Industries Ltd.) and the possible impact of the same on the credit profile of the company. This development is expected to help MKAWPL to leverage deeper synergies with UML in terms of its established customer base in the automotive industry and should also help in strengthening the UML's alloy wheels product portfolio. CARE Ratings Limited (CARE Ratings) would closely monitor the developments with respect to this announcement and would take a view accordingly on the ratings of MKAWPL post implementation of merger after requisite approvals.

The ratings assigned to the bank facilities of MKAWPL continue to derive strength from its 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) in India, substantial improvement in scale of operations during FY22 (refers to the period April 01 to March 31) and 9MFY23 owing to healthy demand prospects and optimum utilization of installed capacities, comfortable financial risk profile characterized by low overall gearing and healthy debt coverage indicators. Further, by virtue of its strong parentage being a wholly owned subsidiary of UML, MKAWPL benefits from group synergies in the form of common business relationships, Minda's brand identity, integrated treasury as well as financial, 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 the significant moderation in the profitability margins during 9MFY23 owing to competitive pricing pressures and increased input costs. CARE Ratings believes that the company would be able to sustain its profitability margins prevalent in the industry in the near term with easing of input costs.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the scale of operations beyond ₹1,500 crore with PBILDT margins beyond 15% on a sustained basis
- Sustained improvement in return on capital employed (ROCE) beyond 21%

Negative factors

- Decline in PBILDT margin below 10% on a sustained basis
- Any un-envisaged debt-funded capital expenditure deteriorating its capital structure at above 0.50x
- Elongated operating cycle thereby impacting cash flow from operations beyond 90 days on a sustained basis

Analytical approach: Standalone

Furthermore, strong operational as well as management linkages with the parent have been considered.

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

Outlook: Not applicable

Acquisition by UML and scheme of amalgamation for merger of the company with UML

During FY22, UML subscribed to the additional fresh issue of shares by infusion of ₹61.20 crore in the company thereby increasing its stake to 77.36% in MKAWPL. On March 24, 2023, UML announced that it has completed acquisition of balance 22.64% stake of the Kosei group in MKAWPL. The said transaction was executed at a consideration of ₹115.50 crore and MKAWPL became a wholly owned subsidiary of UML. Pursuant to this, the company will be entering into a Technical Licensing Agreement (TLA) with Kosei group, Japan to ensure continuity in receiving technical support from the Kosei group.

Furthermore, on March 20, 2023, UML had also announced that the Board of Directors of UML has approved a Scheme of Amalgamation for merger of MKAWPL with UML with a rationale of simplifying the holding structure and strengthening the group's alloy wheel product portfolio. The amalgamation is expected to be implemented upon receipt of requisite approvals.

Key strengths

Experienced promoters with long track record of operations and strong parentage of UML

MKAWPL is promoted by UML, the flagship company of the Uno Minda group, which is one of the leading manufacturers of auto components in India. The Chairman & Managing Director of UML, Nirmal 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. UML is the largest automotive switch, automotive seat, acoustic system 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. UML is also the third-largest player for automotive lighting segments in India. 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, UML also raised funds to the tune of ₹700 crore through the Qualified Institutional placement route in August 2021, which strengthened its financial flexibility and will lend support to deleveraging and fund its growth organically and inorganically. The total operating income of UML recorded a growth rate of around 30% during FY22 and has grown at a compounded annual growth rate (CAGR) of 13% over past three fiscal years ended FY21 and stood at ₹8,313 crore in FY22 as against ₹6,394 crore in FY21 with healthy PBILDT and PAT margins of around 11% and around 5% during FY22. MKWAPL is one of the material subsidiaries of the group and it contributed around 10% of the consolidated revenue of UML in FY22.

Established relationship with reputed customers albeit concentration risk

The company has an 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 the rising demand in automotive industry. Furthermore, 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.

Significant improvement in scale of operations, albeit moderation in margins expected to sustain

The operations of the company improved significantly marked by TOI of ₹813 crore during FY22 (FY21: ₹520 crore) and further during 9MFY23 at ₹926 crore owing to healthy demand prospects in the automotive industry after the disruptions caused by COVID-19 pandemic and optimum capacity utilization levels. Over the past few years, despite the auto industry grappling with slowdown and COVID-19-led business disruptions, MKAWPL continued to report PBILDT margin of more than 25% despite some moderation in the total operating income. However, the PBILDT margins of the company declined substantially during FY22 to 21.34% and further declined during 9MFY23 owing to increased input costs and revision in preferential pricing terms with OEMs. Considering the prevalent market scenario, competitive pricing pressures and expectations of softening of input costs, the company is expected to maintain its operating profitability margins at around 10%-15% in the near term.

Strong financial risk profile

The capital structure of the company has remained strong over the years with comfortable overall gearing as on March 31, 2022 of 0.23x (FY21: 0.22x). Furthermore, the company's ROCE stood comfortable at 18.86% as on March 31, 2022 (FY21: 18.80%). The debt coverage indicators also remained comfortable with PBILDT interest coverage at 15.29x (PY: 11.11x) and total debt/GCA at 0.98x as on March 31, 2022 (FY21: 0.85x). The capital structure of the company is expected to remain comfortable even after availment of debt for its capex requirements in FY23 and FY24.

Strategic location of the plant

MKAWPL has two facilities for manufacturing of alloy wheels, in Bawal (Haryana) and Dekavad (Gujarat) located in close proximity to its customers. The Bawal plant has a capacity of 21.60 lakh pieces wheels annum (LWPA) and supplies alloy wheels to Maruti Suzuki India Limited, Suzuki Motor Gujarat Private Limited and Mahindra & Mahindra Limited. The operations commenced with 7.20 LWPA in May 2016 and has been gradually ramped up with current running capacity of 21.60 LWPA.

The company has also developed another alloy wheel plant in Dekavada (Gujarat) with an annual capacity of 7.20 LWPA which became operational in March 2018 (commercial production started in April 2018). The said plant has capacity of 10.80 LWPA at present. The plant caters for the requirements of Suzuki Motor Gujarat Private Limited. Furthermore, in March 2021, the company has also developed a new line for LPDC technology for an initial capacity of 3 LWPA which is partially commissioned during FY22. Company is in the process of expanding its capacity at both these locations over FY23 to FY24.

Key weaknesses

Susceptibility to raw material price fluctuation and foreign exchange volatility risk

Aluminium is the key raw material used for manufacturing of alloy wheels. 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 LME aluminium prices increased significantly during FY22, especially in the last quarter owing to both supply and demand side disruptions. The prices started softening from H1FY23 leading to sudden effect on profitability margins in the automotive industry. Volatility in aluminium prices pose a challenge to inventory and financial management for the company in the present competitiveness. 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. 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. Further, the company is expected to follow a mix for procurement of raw material depending on prevalent market conditions.

Cyclical nature of the automotive industry

The automobile industry is cyclical in nature and the automotive component suppliers' sales are directly linked to the sales of auto OEMs. After the impact caused by the successive waves of the COVID-19 pandemic and several headwinds like supply chain bottlenecks and semiconductor shortages, the auto industry made a smart recovery with largely all major vehicles segments i.e. Passenger vehicles, commercial vehicles and three wheelers registered a remarkable growth of around 20% in FY22 except for two wheelers segment where demand remained subdued amidst higher fuel prices and increase in acquisition costs. 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.

Liquidity: Strong

The company has strong liquidity marked by healthy gross cash accruals of ₹119 crore vis-à-vis scheduled repayment obligations of ₹42 crore during FY22 and modest cash and bank balance of ₹22 crore as on March 31, 2022. Going forward, the company has planned for major capex of ₹60 crore and ₹92 crore in FY23 and FY24 which is expected to be funded by term loans of around ₹140 crore in the two years period and balance through internal accruals. The company has sufficient headroom to raise debt going forward with comfortable capital structure having an overall gearing of 0.23 times as on March 31, 2022. The reliance on bank limits has remained low reflected from utilization of its non-fund based limits at around 40% for the past 12 months ended February 2023. 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 41 days during FY22 (FY21: 80 days) leading to elongation in its operating cycle to 57 days in FY22 vis-à-vis 30 days in FY21

Applicable criteria

Rating Outlook and Credit Watch
Policy on default recognition
Manufacturing Companies
Auto Ancillary Companies
Factoring Linkages Parent Sub JV Group
Short Term Instruments
Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Minda Kosei Aluminum Wheel Private Limited (MKAWPL) was incorporated on March 23, 2015, for setting up alloy wheels manufacturing plant in Bawal (Haryana) as a 70:30 joint venture (JV) between Haryana-based Uno Minda Limited (formerly known as Minda Industries Ltd.) and Kosei International Trade and Investment Company Limited, Hong Kong (Kosei group), which is one of the leading manufacturers of alloy wheels in Japan. Furthermore, on March 24, 2023, UML has completed the acquisition of stake of Kosei group in MKAWPL and the company now is a wholly owned subsidiary of UML.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	520.78	812.96	926.06
PBILDT	145.82	173.49	NA
PAT	59.91	72.22	NA
Overall gearing (times)	0.22	0.23	NA
Interest coverage (times)	11.11	15.29	NA

A: Audited; Prov.: Provisional; NA: Not available

Note: The above results are latest financial results available; financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instrument/ facilities: Please refer Annexure-3

Complexity level of the various instruments rated: Please refer Annexure-4

Lender details: Please refer Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-External Commercial Borrowings	-	-	-	13.66	CARE AA- (RWP)
Fund-based - LT-Term Loan	-	-	February 2026	90.90	CARE AA- (RWP)
LT/ST Fund-based/Non-fund-based-CC/WCDLOD/LC/BG	-	-	-	35.00	CARE AA- / CARE A1+ (RWP)
LT/ST Fund-based/Non-fund-based-CC/WCDLOD/LC/BG	-	-	-	60.00	CARE AA- / CARE A1+ (RWP)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	35.00	CARE AA- / CARE A1+ (RWP)	-	1)CARE A1+ (04-Jan-22) 2)CARE A1+ (03-Nov-21)	1)CARE A1 (31-Mar-21) 2)CARE A1 (03-Apr-20)	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	60.00	CARE AA- / CARE A1+ (RWP)	-	1)CARE AA-; Stable (04-Jan-22) 2)CARE AA-; Stable (03-Nov-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Stable (03-Apr-20)	-
3	Fund-based - LT-Term Loan	LT	90.90	CARE AA- (RWP)	-	1)CARE AA-; Stable (04-Jan-22) 2)CARE AA-; Stable (03-Nov-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Stable (03-Apr-20)	-
4	Fund-based - LT-External Commercial Borrowings	LT	13.66	CARE AA- (RWP)	-	1)CARE AA-; Stable (04-Jan-22) 2)CARE AA-; Stable (03-Nov-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Stable (03-Apr-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-External Commercial Borrowings	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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