Minda Kyoraku Limited (Revised)

January 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities-Term Loan	44.04 (Enhanced from 31.62)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities-Cash Credit*	7.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities*	5.50 (Enhanced from 1.00)	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Revised from CARE A1 (A One)
Total Bank Facilities	**56.54 (Rs. Fifty-Six Crore and Fifty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

*As per the sanction terms, overall fund-based limits are capped at Rs.12.50 crore whereby Rs.5.50 crore is sub-limit to the overall fund-based limits.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Minda Kyoraku Limited (MKL) factors consistent improvement in the operational performance reflected by strong profitability and comfortable financial risk profile characterized by low overall gearing and healthy debt coverage indicators. By virtue of its strong parentage (being a 67.60% subsidiary of Minda Industries Limited (MIL)) MKL 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.

Further, the ratings continue to derive strength from the company's long-standing relationships with the reputed original equipment manufacturers (OEMs), whereby MKL has been associated with them since its inception being a 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 also consider MKL's strong operational performance marked by healthy and better than envisaged profitability margins during FY21 (refers to the period from April 01 to March 31), strong financial risk profile marked by comfortable gearing levels and its strong coverage indicators. The ratings, however, continue to remain constrained by MKL's customer concentration risk, and the susceptibility of its margins to volatility in raw material prices and to the cyclical nature of the auto component industry. The rating also factors 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 MKL. However, the management of the company have articulated that same is a temporary phenomenon and OEMs to whom the company supplies to are looking at alternative sourcing arrangements to sort out the same. CARE believes that 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.200 crore with sustenance of the profitability margins.
- Sustained improvement in the ROCE beyond 20%.
- Ability to maintain the overall gearing at the current levels after factoring in the planned debt-funded capex in a phased manner.

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

- Decline in PBILDT margin below 15%
- Any un-envisaged debt funded capital expenditure deteriorating its capital structure at above 0.75x
- Elongated operating cycle thereby impacting cash flow from operations

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations

MKL is promoted by MIL, the flagship company of the Minda group, and Kyoraku group (Nagase & Co. Ltd.: 20%, Kyoraku Company Ltd.: 10.32% and Chiyoda Manufacturing Corporation:2.08%), which is one of the leading manufacturers of blow-moulded products such as roof spoilers, air ducts, washer & reserve tanks, EA pads, Deck Board in Japan. The Chairman and Managing Director of MIL, Mr. N K Minda, has more than three decades of experience in the automotive industry. Besides, 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 while keeping its dependence on external borrowings low. MIL has established relationships with reputed OEMs (Original Equipment Manufacturers) and 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. Further, 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 CAGR of ~13% over the past three fiscals ending FY21 and stood at Rs.6,374.20 crore in FY21 with healthy PBILDT and PAT margin of ~12% and ~4% respectively during FY21.

Established relationship with reputed customers, coupled with diversified product profile

Though, the customer-base of MKL appears to be concentrated with top-5 customers contributing ~78% to the total gross sales during FY21 (PY: ~82%), however, the risk is mitigated to some extent considering group's long-standing relationship with the reputed Indian OEMs due to its design/engineering capabilities, state of the art manufacturing units and stringent quality check process. Some of the main OEMs that the company supplies to include Maruti Suzuki India Limited, Suzuki Motor Gujarat Private Limited, Toyota Kirloskar Motors Limited and Mahindra and Mahindra Limited.

Further, the company has a fairly diversified product profile, whereby it is involved in the manufacturing of various types of blow-moulded products including spoilers, ducts, EA Pads, washer bottles, reserve tanks, cistern tank assy and foot step, with major sales accruing from spoilers and ducts, which contributed ~64% to the total gross sales in FY21 (PY: ~76%).

Improved operational performance

The improvement in the operational performance of the company during FY21 is reflected by the higher than envisaged profitability margins. The company's PBILDT margin improved by 573 bps and stood at 23.73% during FY21 (PY: 18%). The same was driven by the various cost optimization measures, thereby leading to improvement in the overall processes. Further, the PAT margin of the company also improved by 677 bps and stood at 10.67% in FY21 (PY: 3.90%) owing to the reduction in the depreciation and interest expenses.

The company had modest scale of operations, whereby its total operating income stood at Rs.168.78 crore during FY21 (PY: Rs.159.39 crore), thereby reporting y-o-y growth of ~6%, with Q1FY21 (refers to period from April 01 to June 30) remaining largely impacted due to the nation-wide lockdowns, however, the company posted strong recovery H2FY21 (refers to the period October 01 to March 31) onwards with steady upliftment of the lockdowns, improvement in the consumer sentiments and festive season demand.

9MFY22 Performance: The company has reported sales of Rs.161.34 crore up to December, 2021 as against Rs.112.55 crore reported up to December, 2020. Further, the company recorded PBILDT and PAT margin of 16.39% and 7.22% respectively during 9MFY22 (9MFY21: 22.90% and 9.44% respectively).

Comfortable financial risk profile

The capital structure of the company stood comfortable with further improvement in the overall gearing to 0.22x as on March 31, 2021 (PY: 0.34x) in line with the repayment of debt alongside accretion of profits. Also, owing to the improvement in profitability, the debt coverage indicators also improved. The interest coverage ratio and total Debt to GCA ratio stood at 16.05x and 0.86 respectively (PY: 8.99x and 1.55x respectively).

Key Rating Weaknesses

Raw material price and forex rate volatility risk

The company has exposure to currency risk to the extent that there is mismatch between the currencies in which sales, purchases and borrowings are denominated. All sales made by the company are in the domestic market whereas the procurement of raw materials is also primarily from the domestic suppliers, however, the company has availed certain foreign currency term loans. Therefore, In the absence of any exports or foreign currency receivables, the company remains exposed to

fluctuation in foreign currency rates. As per the hedging policy of the company, it enters into the forward exchange contracts and currency swap contracts to hedge its currency risk to an extent. The company reported exchange rate profit of Rs.1.70 crore during FY21 (PY: exchange rate loss of Rs.2.51 crore).
Major raw materials required by the company include bought-out components (nuts/ bolts/ seal etc.) and polymers (such as styrene/ ethylene etc.). The prices of the same are directly linked to volatility in crude oil prices. Thus, any fluctuation in prices of these will have direct bearing on the profitability margins of the company.

Cyclical nature of the auto industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to 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 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. 161.34 crore in 9MFY22. 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: Adequate

The company has adequate liquidity marked by sufficient cushion in expected gross cash accruals of Rs.30.61 crore vis-à-vis repayment obligations of Rs.9.20 crore in FY22 and high cash and bank balance of Rs.36.14 crore as on March 31, 2021. Going forward, the company has planned capex of Rs.56.17 crore in FY22, which is expected to funded by term debt and internal accruals in the ratio of 1:2. The company has sufficient headroom to raise debt going forward with comfortable capital structure having an overall gearing way below 1x. Its bank limits are utilized to the extent of 3.6% for the trailing 12 months ending December,2021 and has above unity current ratio with operational cash flows of Rs.30.78 crore in FY21 (PY: Rs.40.16 crore).

Analytical approach: Standalone; however factoring linkages with parent entity; 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
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies

About the Company

Incorporated in the year 2011, Minda Kyoraku Co. Ltd (MKL) is a joint venture (JV) between MIL (holding 67.60% stake in MKL as on March 31, 2021), Kyoraku Co. Ltd, (holding 10.32% stake in MKL as on March 31, 2021), Nagase Co. Ltd. (20% stake as on March 31, 2021) & Chiyoda Mfg. Corporation Japan (2.08% stake as on March 31, 2021). The company manufactures automotive blow moulded products such as roof duct, IP duct, spoilers, washer bottles, deck board and EA pads

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	159.39	168.18	161.34
PBILDT	28.70	39.91	26.45
PAT	6.22	17.94	11.65
Overall gearing (times)	0.34	0.22	0.11
Interest coverage (times)	8.99	16.05	18.63

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
Fund-based - LT-Term Loan		-	-	Jan, 2025	44.04	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	5.50	CARE A+; Stable / CARE A1

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	44.04	CARE A+; Stable	1)CARE A+; Stable (31-Jan-22) 2)CARE A+; Stable (03-Nov-21)	1)CARE A-; Stable (31-Mar-21) 2)CARE A-; Stable (03-Apr-20)	1)CARE A-; Stable (01-Apr-19)	1)CARE A-; Stable (06-Sep-18)
2	Fund-based - LT-Cash Credit	LT	7.00	CARE A+; Stable	1)CARE A+; Stable (31-Jan-22) 2)CARE A+; Stable (03-Nov-21)	1)CARE A-; Stable (31-Mar-21) 2)CARE A-; Stable (03-Apr-20)	1)CARE A-; Stable (01-Apr-19)	1)CARE A-; Stable (06-Sep-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	5.50	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (31-Jan-22) 2)CARE A1 (03-Nov-21)	1)CARE A2+ (31-Mar-21) 2)CARE A2+ (03-Apr-20)	1)CARE A2+ (01-Apr-19)	1)CARE A2+ (06-Sep-18)

* Long Term / Short Term

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

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-Term Loan	Simple
3	Non-fund-based - LT/ 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.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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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