

Takata Corp

Takata warns of \$121m loss from airbag recall

Widening of checks on inflators ordered by US regulators could involve 55m vehicles



© Reuters
Kana Inagaki in Tokyo MAY 9, 2016

Takata has warned it will post an annual net loss of ¥13bn (\$121m) as a result of the [global recall](#) of its airbags.

The safety issue has raised doubts the Japanese airbag maker can shoulder the cost especially after US regulators last week [doubled its recalls to up to 40m inflators](#) installed in vehicles.

Two days ahead of its earnings release, Takata on Monday reversed its forecast for a net profit of ¥5bn for the fiscal year that ended in March. The company said last week it planned to book a one-time charge of ¥20.1bn for product warranty and settlement costs related to the recalls.

Carmakers including [Honda](#) and [Toyota](#) are shouldering the costs, resulting in relatively limited losses for Takata for now. They plan to split the bill once they can establish why some inflators made by Takata have a tendency to explode when deployed, sending shrapnel into people's faces.

The fault has been linked to at least 10 deaths in the US and more than 100 injuries.

The existing recalls cover airbags that use ammonium nitrate as the accelerant to make them inflate on deployment. Checks on a further 35m to 40m inflators ordered by the National Highway Traffic Safety Administration expand the recalls to all Takata ammonium nitrate airbags in the US that lack a chemical known as desiccant to keep the ammonium nitrate dry.

Despite agreeing to the expanded recalls ordered by NHTSA, Takata has said it was not aware of any ruptures related to its inflator products that lack a moisture-absorbing desiccant.

Takaki Nakanishi, analyst at Jefferies, estimates that the latest expansion could result in an additional recall of 55m vehicles globally and extra costs of ¥665.4bn. The brokerage estimates that 62.5m vehicles have already been recalled as of February 11, including 31m by Honda and 14.5m by Toyota.



“We will be paying close attention to responsibility sharing and financial impact of the ¥1.26tn in total costs,” Mr Nakanishi wrote in a report.

The NHTSA has so far found no cases where inflators including a desiccant exploded, but Takata will need to conduct research to prove that those inflators remain safe. If the recall extends to desiccated inflators, Mr Nakanishi estimates total costs will grow to ¥2.3tn for a recall of 205m vehicles globally.

The company’s equity ratio — a measure of capital strength — was relatively robust at 32 per cent as of the end of December. But its cash dropped 28 per cent from one year earlier to ¥60.8bn.

Despite the new loss forecast and a cut in its revenue outlook, Takata revised upward its operating profit forecast 5 per cent to ¥42bn without providing a reason.

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