



TM

11 November 2021

Minda Industries

Focus on building up EV portfolio; limited upside at CMP

RESULT UPDATE

Sector: Auto Rating: HOLD

CMP: Rs 862 Target Price: Rs 780

Stock Info

Sensex/Nifty 59,919/ 17,887

Bloomberg MNDA IN

Equity shares (mn) 262mn

52-wk High/Low Rs 884/343

Face value Rs 2

M-Cap Rs 246bn/USD 3.3bn

3-m Avg volume USD 0.8mn

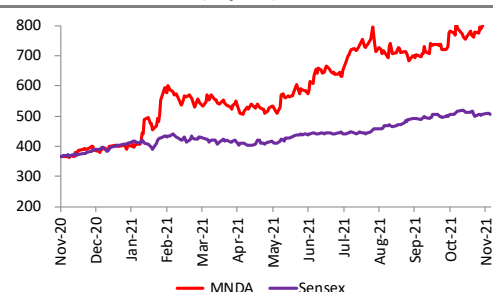
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Net Sales	63,737	84,260	98,874
EBIDTA	7,250	9,521	12,359
PAT	2,411	4,171	6,296
EPS (Rs)	7	15	22
PE (x)	118.9	58.6	39.0
EV/EBITDA (x)	35.0	25.8	19.7
RoE (%)	9	13	16
RoCE (%)	13	19	24
FCF yield (%)	(0.1)	0.7	1.2

Shareholding Pattern (%)

	Sep '21	Jun '21	Mar '21
Promoter	67.5	70.0	70.9
-Pledged	-	-	-
FII	9.2	9.0	9.6
DII	13.7	10.9	10.5
Others	9.6	10.1	9.0

Stock Performance (1-year)



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Minda Industries (MNDA IN) 2QFY22 operating performance was 7% ahead of consensus and our estimates on a strong topline show. Lower production by OEMs due to the on-going semiconductor chip shortage impacted EBITDA margins. The constraints should ease in 2HFY22 and lead to a recovery in profitability. The company has added 3 new components in production and 2 under development for the E-2W/E-3W segments, which increases its target content per vehicle to Rs 19,000 (vs. Rs 7,300 in internal combustion engines - ICE). We cut our FY22/23 PAT estimates by 17%/4% to factor in the supply chain constraints and weak EBITDA margin. While we remain enthused by the new product development (especially electronics) in the EV space, the sharp run-up in the stock price provides limited upside. Thus, we downgrade the stock to HOLD from Buy with a target price of Rs 780 (Rs 750 earlier) which is based on 15x FY23E EV/EBITDA + Rs 60 for JVs.

Key concall takeaways:

- **Segment-wise revenue performance:** MNDA reported 30% YoY growth in 2QFY22 with switches, lighting, acoustics, light metal technologies (LMT), seatings and other segments growing by 9%, 25%, -4%, 98%, 42% and 63% YoY (41%, 32%, -1%, 37%, 25% and 36% QoQ), respectively.
- **New order wins:** The company bagged several new orders during the quarter, including 1) PV LED tail lamp & DRL orders from Indian OEMs and PV head lamp order from a Japanese OEM (together worth ~Rs 3bn), 2) switching systems order from Korean PV OEMs, 3) export orders in 2W switching systems from Japanese OEMs (including a E-2W OEM) 4) suspended seats order (value at 4x of conventional seats) for an off-highway vehicle.
- **Harita performance & outlook:** The company completed the acquisition of the remaining 49% stake in Harita in 4QFY21. Harita's 2QFY22 performance was up 25% QoQ on the back of a pick-up in CV segment volumes (form ~50% of Harita's revenues). The management is focused on strengthening Harita's penetration in the 2W segment (including new-age domestic EV start-ups; added three E-2W customers). It has also launched its seating products for the aftermarket segment.
- **4W alloy wheels demand:** Even as volumes were constrained by the global chip shortage, revenue from 4W alloy wheels grew ~56% YoY to Rs 1.9bn in 2QFY22 on the back of increased penetration of alloy wheels in 4Ws and some price escalation. The management highlighted that the company is operating at peak utilisation levels and may need to expand capacity for PV alloy wheels beyond the on-going capex at its Bawal plant.
- **Increased focus on EVs:** MNDA continues to expand its EV product portfolio and explore incremental revenue opportunities in the EV space. The company added 2 new products under development (potential kit value of Rs 2,000) and commenced production of BMS, onboard charger & body control modules during the quarter. It is also working on new products like motors & controllers, for which it may look for a technology partner. The management estimates a potential kit value of ~Rs 28,300 for E-2Ws on the back of its existing offerings (incremental potential of Rs 7,000 on the addition of motors & controllers to the portfolio).

- **Net debt levels:** Net debt was at Rs 4bn as of end-Sep21 vs. Rs 8bn as of end-Mar'21 (net debt/equity at 0.1x) post equity fundraise of Rs 7bn in the year.
- **Revenue mix:** Revenue contribution from segments viz. switches, lighting, acoustics, LMT, seatings & others was 31%, 21%, 7%, 15%, 12% & 14%, respectively, in 2QFY22 vs. 37%, 22%, 10%, 10%, 10% & 11% YoY. Geography-wise (India: International), channel-wise (OEM: Replacement) and segment-wise (2W: 4W) revenue mix for the company was 86: 14, 89: 11 and 52: 48, respectively, in 2QFY22 (77: 23, 92: 8 and 46: 54 for 1QFY22).

Valuation and outlook: We expect MNDA to deliver revenue/EBITDA/PAT CAGRs of 25%/31%/62% between FY21-23E. At the CMP, the stock trades at a PER of 39.0x and EV/EBITDA of 19.7x at FY23E.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	21,140	20,240	4.4	18,741	12.8
EBITDA	2,279	2,125	7.2	2,121	7.4
EBITDA Margin (%)	10.8	10.5	2.7	11.3	-54
Adj PAT	947	801	18.3	761	24.4
Adj EPS	3.6	3.1	18.3	3.0	20.9

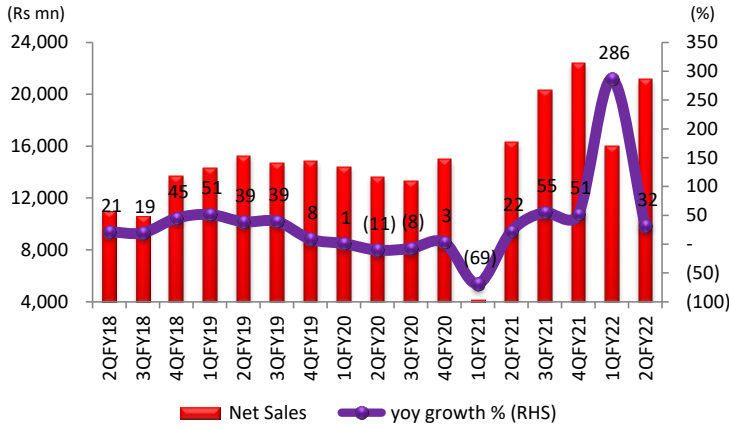
Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 2: Consolidated financial trend

Consolidated (Rs mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)
Net Sales	16,322	20,312	22,383	16,026	21,140	29.5	31.9
- Raw Material	9,954	12,396	14,044	9,820	13,406	34.7	36.5
(% of Net Sales)	61.0	61.0	62.7	61.3	63.4	243	214
- Staff Expenditure	2,269	2,724	2,965	2,762	3,025	33.3	9.5
(% of Net Sales)	13.9	13.4	13.2	17.2	14.3	41	-293
- Other Expenditure	1,815	2,403	2,358	1,977	2,430	33.9	22.9
(% of Net Sales)	11.1	11.8	10.5	12.3	11.5	37	-84
Total Expenditure	14,038	17,523	19,367	14,559	18,861	34.4	29.6
EBITDA	2,284	2,789	3,016	1,467	2,279	(0.2)	55.3
EBITDA Margin (%)	14.0	13.7	13.5	9.2	10.8	-322	162
Depreciation	904	1,004	1,072	905	968	7.1	7.0
EBIT	1,380	1,785	1,944	562	1,311	(5.0)	133.2
Interest	187	200	151	185	177	(5.6)	(4.7)
Other Income	158	166	89	61	211	33.4	243.0
Exceptional Items	0	0	17	0	0		
PBT	1,351	1,752	1,882	438	1,345	(0.5)	206.9
Tax	452	474	476	139	423	(6.3)	203.8
Tax rate (%)	33.4	27.1	25.3	31.8	31.4	-197	-32
PAT before minorities	900	1,277	1,406	299	922	2.5	208.4
Profit from JV	100	89	215	-50	212	111.9	(522.1)
Minority	137	212	235	95	187	36.9	98.0
Reported PAT	863	1,154	1,403	154	947	9.7	514.3
Adjusted PAT	863	1,154	1,386	154	947	9.7	514.3
Adjusted EPS (Rs)	3.3	4.4	5.4	0.6	3.6	9.7	514.3

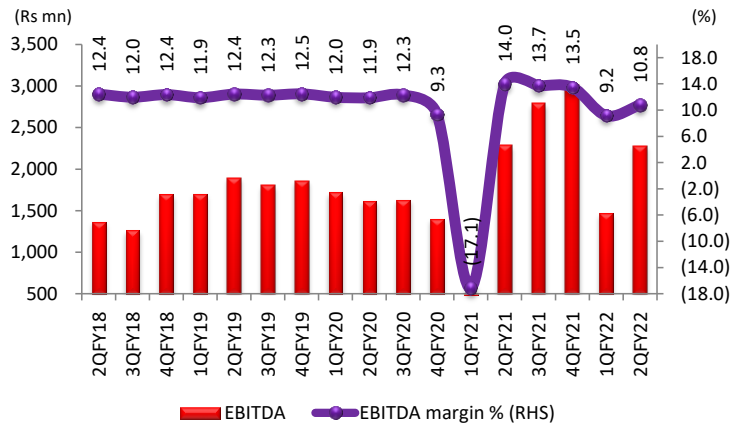
Source: Company, Systematix Institutional Research

Exhibit 3: Quarterly revenue and growth trend



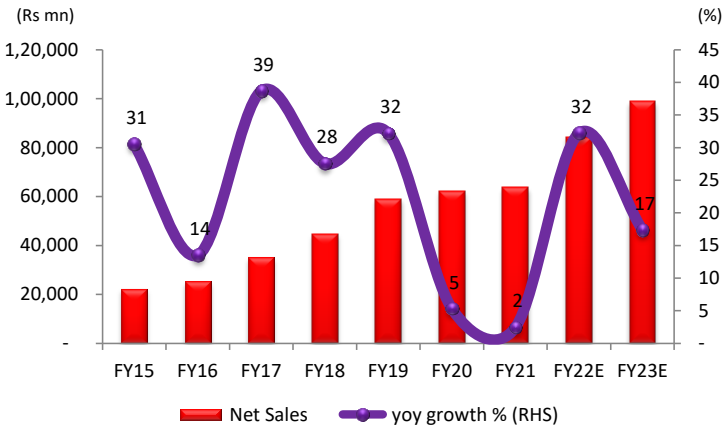
Source: Company, Systematix Institutional Research

Exhibit 4: Quarterly EBITDA and margin profile



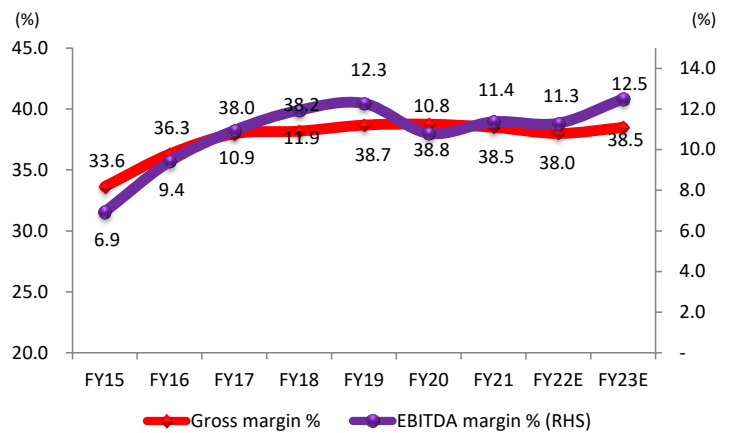
Source: Company, Systematix Institutional Research

Exhibit 5: Revenue and growth trend



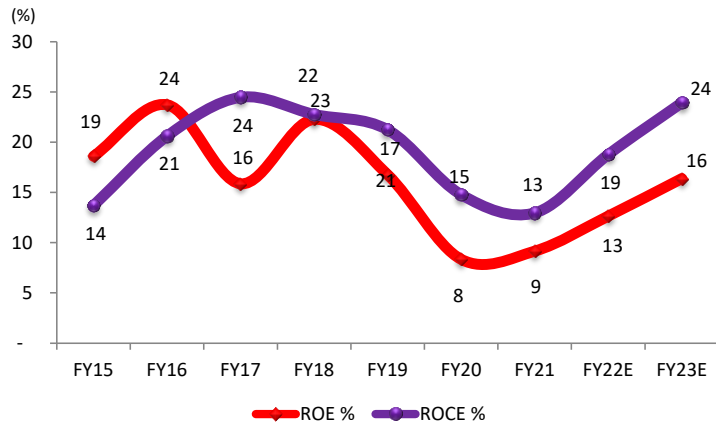
Source: Company, Systematix Institutional Research

Exhibit 6: Gross and EBITDA margin trend



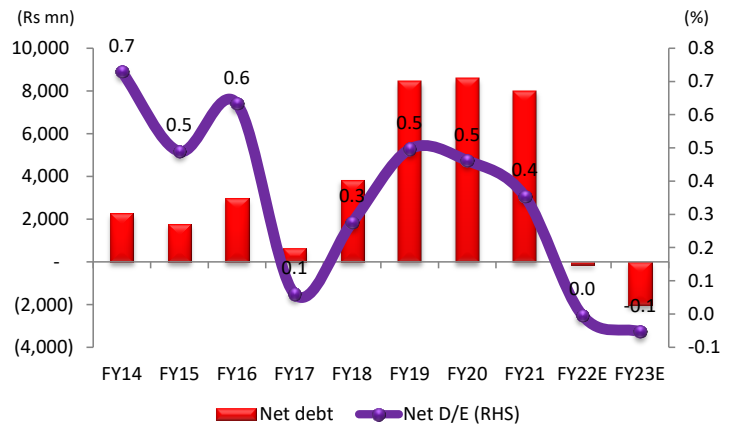
Source: Company, Systematix Institutional Research

Exhibit 7: RoE and RoCE remain robust



Source: Company, Systematix Institutional Research

Exhibit 8: Net debt and net debt/equity remain comfortable



Source: Company, Systematix Institutional Research

Exhibit 9: Component-wise revenue break-up

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Switches	12,110	15,800	22,370	20,140	21,340	26,035	29,680
Lights	10,240	11,640	12,930	12,230	14,350	17,938	20,449
Horns	6,590	7,170	7,170	6,530	6,110	6,599	6,995
Casting	2,000	2,520	2,930	3,000	2,350	2,773	3,106
Alloy wheels	1,950	4,580	6,100	4,810	5,120	9,216	11,520
Seats				7,570	6,910	10,365	12,956
Others	2,160	2,996	6,250	7,940	7,557	11,335	14,169
Total	35,050	44,706	58,100	62,220	63,737	84,260	98,874
Growth (%)							
Switches	17	30	42	-10	6	22	14
Lights	133	14	11	-5	17	25	14
Horns	27	9	0	-9	-6	8	6
Casting	23	26	16	2	-22	18	12
Alloy wheels	875	135	33	-21	6	80	25
Seats					-9	50	25
Others	-38	39	109	27	-5	50	25
Total	39	28	30	7	2	32	17

Source: Company, Systematix Institutional Research; Note: Company has changed segmental reporting format w.e.f. FY21

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	59,081	62,220	63,737	84,260	98,874
Growth, %	32%	5%	2%	32%	17%
RM expenses	-36,224	-38,103	-39,193	-52,241	-60,807
Employee expenses	-7,913	-9,438	-9,817	-12,386	-13,842
Other expenses	-7,691	-7,961	-7,478	-10,111	-11,865
EBITDA	7,252	6,718	7,250	9,521	12,359
Growth, %	36%	-7%	8%	31%	30%
Margin, %	12.3	10.8	11.4	11.3	12.5
Depreciation	-2,344	-3,401	-3,753	-3,931	-4,311
EBIT	4,909	3,317	3,497	5,590	8,048
Growth, %	33	-32	5	60	44
Margin, %	8.3	5.3	5.5	6.6	8.1
Interest paid	-632	-942	-737	-648	-463
Other Income	270	405	470	843	989
Non-recurring Items	0	-345	17	0	0
Pre-tax profit	4,547	2,781	3,231	5,785	8,573
Tax provided	-1,341	-686	-1,005	-1,330	-1,972
Profit after tax	3,207	2,094	2,225	4,454	6,601
Profit from JVs less minority int-350	-543	-159	-266	-306	-306
Net Profit	2,857	1,552	2,066	4,188	6,296
Growth, %	-8	-46	33	103	50
Net Profit (adjusted)	2,474	1,552	2,411	4,171	6,296

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	1,101	3,409	2,382	8,249	8,161
Marketable securities cost	0	0	0	0	0
Debtors	8,992	8,632	11,988	15,698	17,608
Inventory	5,610	6,095	7,506	9,234	9,481
Loans & advances	232	224	302	399	468
Other current assets	2,702	3,122	2,984	2,984	2,984
Total current assets	18,636	21,072	24,863	36,265	38,403
Investments	3,556	3,983	5,302	5,802	6,302
Gross fixed assets	30,801	41,123	46,144	52,144	55,644
Less: Depreciation	-13,839	-17,240	-20,993	-24,925	-29,236
Add: Capital WIP	1,501	3,600	1,343	1,343	1,343
Net fixed assets	20,112	30,343	29,311	31,379	30,568
Total assets	42,304	55,398	59,475	73,446	75,273
Current liabilities	14,497	23,206	24,789	30,462	28,984
Provisions	1,211	1,579	1,741	1,741	1,741
Total current liabilities	15,708	24,785	26,530	32,203	30,725
Debt	9,555	12,003	10,379	8,129	6,129
Total liabilities	25,263	36,788	36,909	40,332	36,854
Paid-up capital	524	524	544	571	571
Reserves & surplus	16,517	18,086	22,022	32,542	37,847
Shareholders' equity	17,041	18,611	22,566	33,113	38,419
Total equity & liabilities	42,304	55,398	59,475	73,445	75,273

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	4,736	2,910	3,472	6,369	9,228
Depreciation	2,344	3,401	3,753	3,931	4,311
Chg in working capital	-1,780	8,429	-3,496	-712	-4,665
Total tax paid	-1,341	-686	-1,005	-1,330	-1,972
CFO	4,140	8,666	3,397	8,258	6,903
Capital expenditure	-6,251	-5,913	-2,881	-6,000	-3,500
Chg in investments	-2,004	-1,943	-1,280	-500	-500
Chg in marketable securities	-	-	0	0	0
CFI	-8,255	-8,352	-3,610	-6,500	-4,000
Free cash flow	-4,115	809	-763	1,758	2,903
Debt raised/(repaid)	4,039	2,209	-1,431	-2,250	-2,000
Dividend (incl. tax)	-354	-440	-186	-668	-990
CFF	3,685	861	-372	4,109	-2,990
Net chg in cash	-430	1,174	-585	5,867	-88
Opening cash balance	1,595	1,101	3,409	2,382	8,249
Closing cash balance	1,101	3,409	2,382	8,249	8,161

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	10.0	5.4	7.2	14.7	22.0
PER (x)	86.0	158.3	118.9	58.6	39.0
Price/Book (x)	14.4	13.2	10.9	7.4	6.4
EV/EBITDA (x)	35.0	37.8	35.0	25.8	19.7
EV/Net sales (x)	4.3	4.1	4.0	2.9	2.5
RoE (%)	17	8	9	13	16
RoCE (%)	21	15	13	19	24
Fixed Asset turnover (x)	1.9	1.5	1.4	1.6	1.8
FCF Yield (%)	(1.7)	0.1	(0.1)	0.7	1.2
Receivable (days)	56	51	69	68	65
Inventory (days)	35	36	43	40	35
Payable (days)	49	66	74	65	65
Revenue Growth (%)	32	5	2	32	17
EBIDTA Growth (%)	36	-7	8	31	30
EPS Growth, %	-8	-46	33	103	50
Net D/E ratio (x)	0.5	0.5	0.4	(0.0)	(0.1)

Source: Company, Systematix Institutional Research

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DISCLOSURES/APPENDIX

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I, **Ronak Sarda, Poorvi Banka**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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