



TM

07 February 2022

Minda Industries

Expect a sharp recovery in profitability

Minda Industries (MNDA IN) 3QFY22 operating performance was in-line with consensus and our estimates as it continued to outperform the industry. The supply chain constraints have started easing and we expect profits to rebound on a sequential basis as utilisations improve. MNDA has cemented its position in the EV supply chain with a JV agreement with FRIWO AG, Germany – a manufacturer of power supply units and e-drive solutions. MNDA (50.1% share in the JV) & FRIWO (49.5%) have complementary product portfolios and supply content per unit worth Rs 56,300 (~45% vehicle cost), including key components like battery packs, BMS, motor controllers & DC-DC converters. Order wins in the switches, alloy wheels and lighting segments also remain robust, which should aid growth over the next two years. We tweak our FY23/24 estimates marginally upwards and maintain our BUY rating with a target price of Rs 1,250 based on 15x FY24E EV/EBITDA + Rs 440 for JVs ([we value the E-2W and E-3W opportunities separately - Exhibit 5](#)).

RESULT UPDATE

Sector: Auto Rating: BUY

CMP: Rs 1,075 Target Price: Rs 1,250

Stock Info

Sensex/Nifty	57,962/ 17,311
Bloomberg	MNDA IN
Equity shares (mn)	262mn
52-wk High/Low	Rs 1,260/460
Face value	Rs 2
M-Cap	Rs 311bn/USD 4.2bn
3-m Avg volume	USD 0.8mn

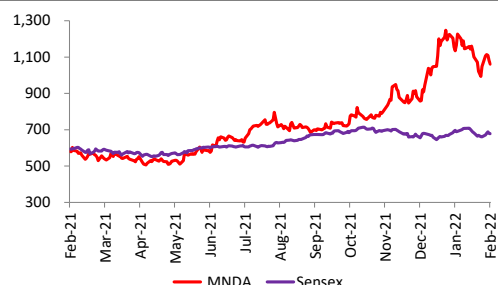
Financial Snapshot (Rs mn)

Y/E Mar	FY22E	FY23E	FY24E
Net Sales	84,571	1,02,364	1,17,218
EBIDTA	9,134	12,233	15,238
PAT	3,893	6,250	8,503
EPS (Rs)	14	22	30
PE (x)	77.1	48.2	35.4
EV/EBITDA (x)	33.0	24.5	19.2
RoE (%)	12	16	19
RoCE (%)	18	24	32
FCF yield (%)	0.4	0.8	3.1

Shareholding Pattern (%)

	Dec '21	Sep '21	Jun '21
Promoter	67.5	67.5	70.0
-Pledged	-	-	-
FII	9.9	9.2	9.0
DII	13.1	13.7	10.9
Others	9.4	9.6	10.1

Stock Performance (1-year)



Key concall takeaways:

- **Segment-wise revenue performance:** MNDA reported 7% YoY growth in 3QFY22 wherein switches, lighting, acoustics, light metal technologies (LMT), seatings and other segments grew by -6%, 6%, -21%, 38%, 5% and 43% YoY (-2%, 7%, -2%, 11%, -3% and 8% QoQ), respectively. Overall aftermarket revenue for the company was higher by 18% YoY/16% QoQ. Revenue contribution from segments viz. switches, lighting, acoustics, LMT, seatings & others was 29%, 22%, 7%, 16%, 11% & 16%, respectively, in 3QFY22 vs. 33%, 23%, 9%, 13%, 11% & 11% YoY.
- **New order wins:** The company bagged several new orders during the quarter, including 1) orders for switches, 2W lamps, 2W alloy wheels, 2W acoustics & 2W seating systems from domestic E-2W OEMs; 2) PV LED headlamps order from a Japanese OEM, 3) another order for 4W alloy wheels from a Korean OEM.
- **EV orders:** The order wins for its EV products in 3Q include – On-board charger & BMS orders from legacy OEMs & wireless charger orders from a Japanese PV OEM. Its overall orders have an aggregate annual peak sales value of Rs 4bn. Profitability for EV components is broadly in-line with existing margins.
- **Additional investment in Minda Kosei (4W alloy wheel):** MNDA will increase its stake in its key subsidiary Minda Kosei Aluminum Wheels Company Limited (MKA) from 70% to 77.35% through a rights issue, entailing an investment of Rs 612mn. This is on the back of significant growth opportunities given the increasing penetration of 4W alloy wheels & import substitution. The 4W alloy wheel plants are running at a ~100% capacity and the new Bawal expansion should be completed by 1QFY23.
- **2W alloy wheel segment:** The capacity utilisation rate for the 2W alloy wheels segment was 60-65% (from 3 operational lines) in 3Q. Segmental revenue was Rs 2bn for 9MFY22; MNDA targets Rs 4.5-5bn revenues in FY23E. It has added 2 more customers in this segment, and commercial production would commence soon. It expects the strong import substitution potential to aid segmental growth going forward (50% of requirement imported currently).

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- **Increase in kit-value for airbags:** With the government's mandate of 6 airbags in PVs starting from Oct'22 (kit value to increase by Rs 6,500/vehicle), MNDA envisages the overall industry to see a sharp jump in kit value. It targets a ~25% market share from ~14% currently.
- **Capex & net debt levels:** The management has guided for a capex of ~Rs 3bn in FY23E. Net debt was Rs 4.1bn as of end-Dec'21 vs. Rs 8bn as of end-Mar'21 (net debt/equity at 0.1x) post equity fundraise of Rs 7bn during the year.

Valuation and outlook: We expect MNDA to deliver revenue/EBITDA/PAT CAGRs of 23%/28%/52% between FY21-24E. At the CMP, the stock trades at FY23E/24E PER of 48.2x/35.4x and EV/EBITDA of 24.5x/19.2x.

Exhibit 1: Reported numbers vs. expectations

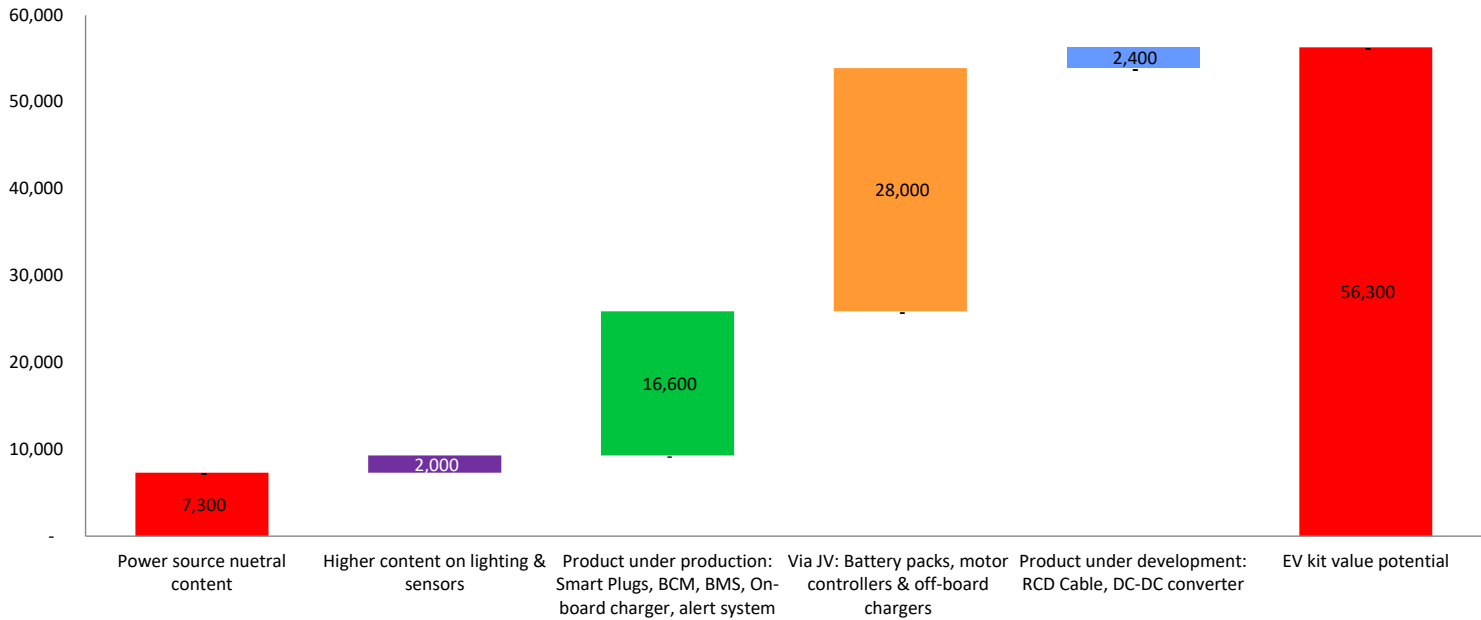
Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	21,814	21,140	3.2	21,551	1.2
EBITDA	2,353	2,325	1.2	2,412	(2.4)
EBITDA Margin (%)	10.8	11.0	-21	11.2	-40
Adj PAT	1,013	1,030	(1.7)	1,159	(12.6)
Adj EPS	3.9	3.9	(1.7)	4.6	(15.1)

Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 2: Consolidated financial trend

Consolidated (Rs mn)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	YoY (%)	QoQ (%)
Net Sales	20,312	22,383	16,026	21,140	21,814	7.4	3.2
- Raw Material	12,396	14,044	9,820	13,406	14,020	13.1	4.6
(% of Net Sales)	61.0	62.7	61.3	63.4	64.3	324	85
- Staff Expenditure	2,724	2,965	2,762	3,025	2,954	8.4	(2.4)
(% of Net Sales)	13.4	13.2	17.2	14.3	13.5	13	-77
- Other Expenditure	2,403	2,358	1,977	2,430	2,488	3.5	2.4
(% of Net Sales)	11.8	10.5	12.3	11.5	11.4	-43	-9
Total Expenditure	17,523	19,367	14,559	18,861	19,461	11.1	3.2
EBITDA	2,789	3,016	1,467	2,279	2,353	(15.6)	3.3
EBITDA Margin (%)	13.7	13.5	9.2	10.8	10.8	-294	1
Depreciation	1,004	1,072	905	968	942	(6.1)	(2.7)
EBIT	1,785	1,944	562	1,311	1,411	(20.9)	7.7
Interest	200	151	185	177	127	(36.6)	(28.2)
Other Income	166	89	61	211	125	(24.7)	(40.5)
Exceptional Items	0	17	0	0	0		
PBT	1,752	1,882	438	1,345	1,410	(19.5)	4.8
Tax	474	476	139	423	423	(10.8)	0.0
Tax rate (%)	27.1	25.3	31.8	31.4	30.0	294	-144
PAT before minorities	1,277	1,406	299	922	987	(22.7)	7.0
Profit from JV	89	215	-50	212	195	119.6	(8.2)
Minority	212	235	95	187	169	(20.5)	(9.8)
Reported PAT	1,154	1,403	154	947	1,013	(12.2)	6.9
Adjusted PAT	1,154	1,386	154	947	1,013	(12.2)	6.9
Adjusted EPS (Rs)	4.4	5.4	0.6	3.6	3.9	(12.2)	6.9

Source: Company, Systematix Institutional Research

Exhibit 3: MNDA – FRIWO JV doubles the content per vehicle in E-2W and E-3Ws

Source: Company, Systematix Institutional Research

Exhibit 4: MNDA's current content to 2W industry (power source neutral)...

Kit value (Rs, currently)	ICE
Content per vehicle	7,300
MNDA's market share	50%
Effective content per vehicle	3,650

...New EV components to double the effective kit value

Kit value (Rs, CY25)	ICE (A)	EV (B)
Current + premiumisation	9,300	9,300
Telematics		1,000
JV content		47,000
Total	9,300	57,300
MNDA's market share	50%	25%
Sub-total	4,650	14,611
ICE:EV mix (%)	75	25
Effective content per vehicle	3,488	3,653

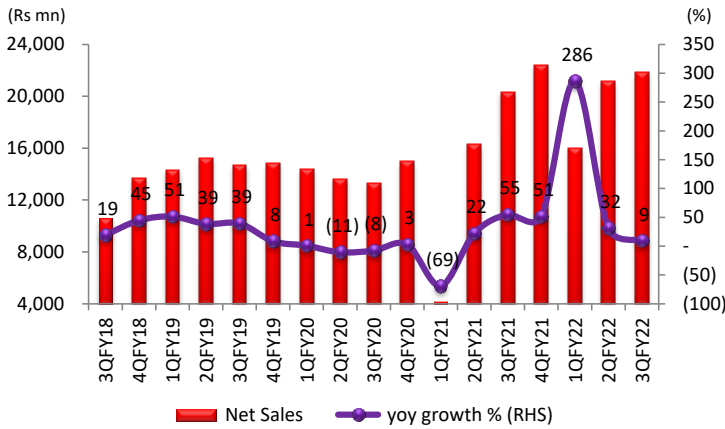
Source: Company, Systematix Institutional Research

Exhibit 5: Valuation for EV business/JV with FRIWO

Valuing EV business (FRIWO JV)	Rs mn	Comments
CY30 E-2W/3W volumes (mn)	12.5	CY30 volume estimates; ~50% of the industry to be EVs
Content per vehicle	14,611	As per Exhibit 2; MNDA enjoys a 25% market share
Topline potential	1,82,637	
PAT margin	10%	Including PLI benefits
PAT	18,264	
Market cap @ 25x PER	4,56,591	
Discounted to FY23	2,19,921	
Value per share	770	
Attributable to MNDA (50.1%)	386	

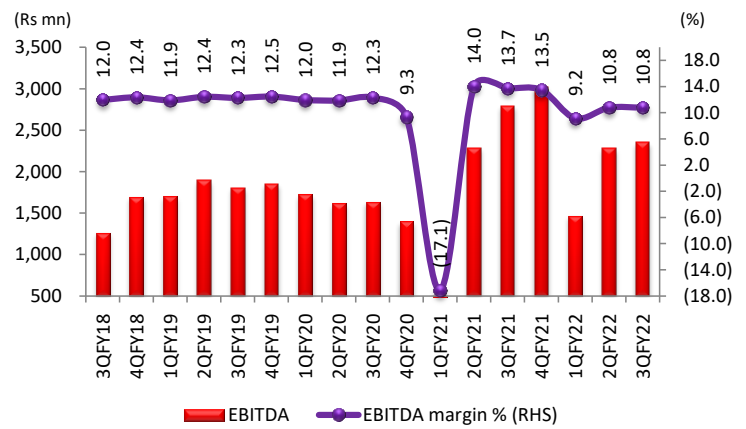
Source: Company, Systematix Institutional Research

Exhibit 6: Quarterly revenue and growth trend



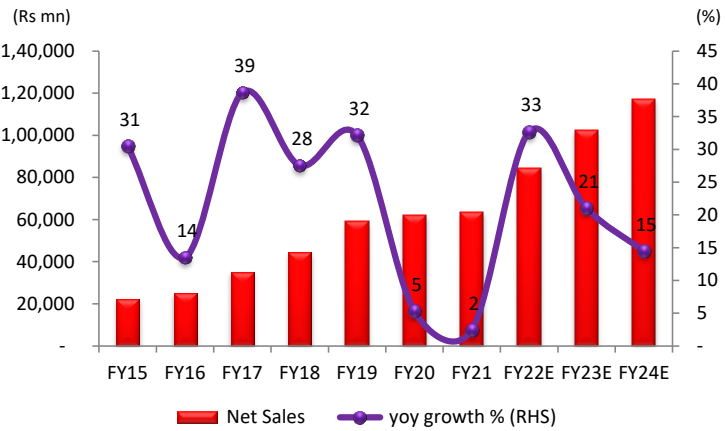
Source: Company, Systematix Institutional Research

Exhibit 7: Quarterly EBITDA and margin profile



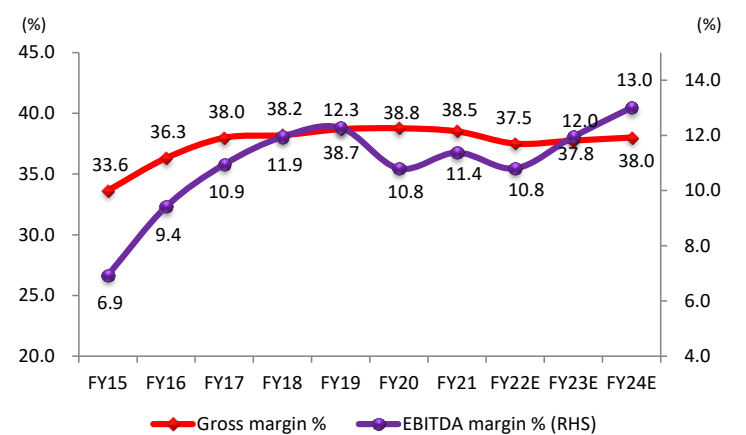
Source: Company, Systematix Institutional Research

Exhibit 8: Revenue and growth trend



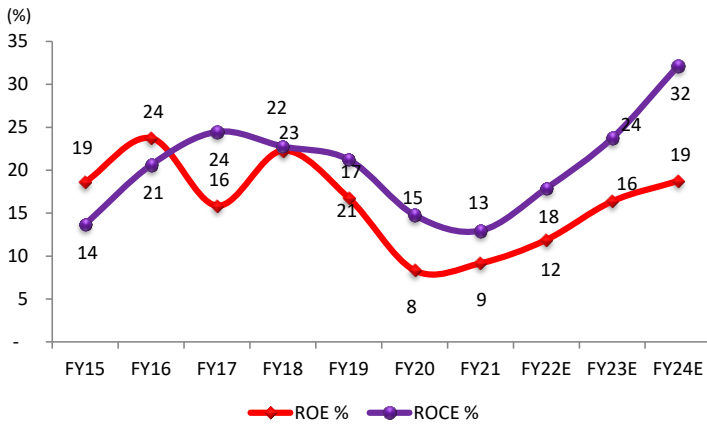
Source: Company, Systematix Institutional Research

Exhibit 9: Gross and EBITDA margin trend



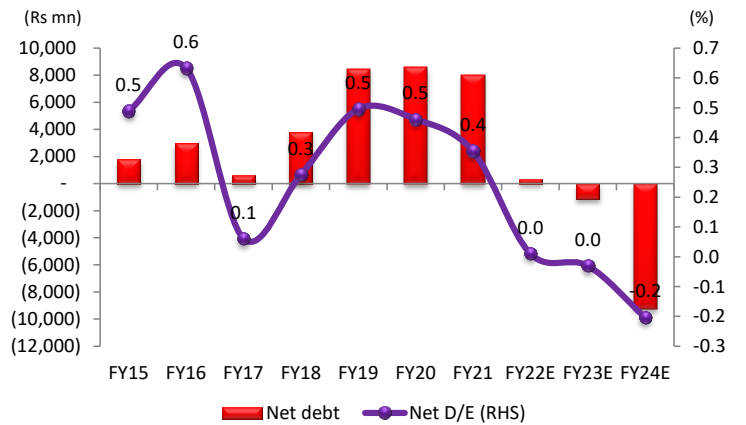
Source: Company, Systematix Institutional Research

Exhibit 10: RoE and RoCE remain robust



Source: Company, Systematix Institutional Research

Exhibit 11: Net debt and net debt/equity remain comfortable



Source: Company, Systematix Institutional Research

Exhibit 12: Component-wise revenue break-up

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Switches	12,110	15,800	22,370	20,140	21,340	25,608	30,730	33,803
Lights	10,240	11,640	12,930	12,230	14,350	17,938	21,525	23,678
Horns	6,590	7,170	7,170	6,530	6,110	6,599	6,995	7,414
Casting	2,000	2,520	2,930	3,000	2,280	2,690	3,094	3,403
Alloy wheels	1,950	4,580	6,100	4,810	5,190	9,809	12,752	15,302
Seats				7,570	6,910	10,365	12,645	14,163
EV components							750	3,500
Sensors, Telematics & Others	2,160	2,996	6,250	7,940	7,557	11,562	13,874	15,955
Total	35,050	44,706	58,100	62,220	63,737	84,571	1,02,364	1,17,218
Growth (%)								
Switches	17	30	42	-10	6	20	20	10
Lights	133	14	11	-5	17	25	20	10
Horns	27	9	0	-9	-6	8	6	6
Casting	23	26	16	2	-24	18	15	10
Alloy wheels	875	135	33	-21	8	89	30	20
Seats					-9	50	22	12
EV components								367
Sensors, Telematics & Others	-38	39	109	27	-5	53	20	15
Total	39	28	30	7	2	33	21	15

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)	FY20	FY21	FY22E	FY23E	FY24E
Net sales	62,220	63,737	84,571	1,02,364	1,17,218
Growth, %	5%	2%	33%	21%	15%
RM expenses	-38,103	-39,193	-52,857	-63,722	-72,675
Employee expenses	-9,438	-9,817	-12,432	-14,331	-15,707
Other expenses	-7,961	-7,478	-10,148	-12,079	-13,597
EBITDA	6,718	7,250	9,134	12,233	15,238
Growth, %	-7%	8%	26%	34%	25%
Margin, %	10.8	11.4	10.8	12.0	13.0
Depreciation	-3,401	-3,753	-3,784	-4,150	-4,419
EBIT	3,317	3,497	5,350	8,083	10,819
Growth, %	-32	5	53	51	34
Margin, %	5.3	5.5	6.3	7.9	9.2
Interest paid	-942	-737	-648	-463	-333
Other Income	405	470	592	768	879
Non-recurring Items	-345	17	0	0	0
Pre-tax profit	2,781	3,231	5,294	8,387	11,365
Tax provided	-686	-1,005	-1,218	-1,929	-2,614
Profit after tax	2,094	2,225	4,076	6,458	8,751
Profit from JVs less minority int-543	-159	-159	-166	-208	-248
Net Profit	1,552	2,066	3,910	6,250	8,503
Growth, %	-46	33	89	60	36
Net Profit (adjusted)	1,552	2,411	3,893	6,250	8,503

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Cash & bank	3,409	2,382	7,785	7,287	13,362
Marketable securities cost	0	0	0	0	0
Debtors	8,632	11,988	15,756	18,229	20,874
Inventory	6,095	7,506	9,268	9,816	11,240
Loans & advances	224	302	401	485	555
Other current assets	3,122	2,984	2,984	2,984	2,984
Total current assets	21,072	24,863	35,894	38,502	48,717
Investments	3,983	5,302	5,802	6,302	6,802
Gross fixed assets	41,123	46,144	52,144	55,644	59,144
Less: Depreciation	-17,240	-20,993	-24,777	-28,927	-33,346
Add: Capital WIP	3,600	1,343	1,343	1,343	1,343
Net fixed assets	30,343	29,311	31,527	30,877	29,958
Total assets	55,398	59,475	73,222	75,681	85,476
Current liabilities	23,206	24,789	30,460	29,637	34,242
Provisions	1,579	1,741	1,741	1,741	1,741
Total current liabilities	24,785	26,530	32,201	31,378	35,983
Debt	12,003	10,379	8,129	6,129	4,129
Total liabilities	36,788	36,909	40,330	37,507	40,112
Paid-up capital	524	544	571	571	571
Reserves & surplus	18,086	22,022	32,321	37,602	44,793
Shareholders' equity	18,611	22,566	32,892	38,173	45,364
Total equity & liabilities	55,398	59,475	73,222	75,681	85,476

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	2,910	3,472	5,878	9,042	12,100
Depreciation	3,401	3,753	3,784	4,150	4,419
Chg in working capital	8,429	-3,496	-708	-4,791	-518
Total tax paid	-686	-1,005	-1,218	-1,929	-2,614
CFO	8,666	3,397	7,737	6,471	13,387
Capital expenditure	-5,913	-2,881	-6,000	-3,500	-3,500
Chg in investments	-1,943	-1,280	-500	-500	-500
Chg in marketable securities	-	0	0	0	0
CFI	-8,352	-3,610	-6,500	-4,000	-4,000
Free cash flow	809	-763	1,237	2,471	9,387
Debt raised/(repaid)	2,209	-1,431	-2,250	-2,000	-2,000
Dividend (incl. tax)	-440	-186	-611	-969	-1,313
CFF	861	-372	4,166	-2,969	-3,313
Net chg in cash	1,174	-585	5,402	-497	6,075
Opening cash balance	1,101	3,409	2,382	7,785	7,287
Closing cash balance	3,409	2,382	7,785	7,287	13,362

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
EPS (INR)	5.4	7.2	13.7	21.9	29.8
PER (x)	194.2	145.8	77.1	48.2	35.4
Price/Book (x)	16.2	13.4	9.2	7.9	6.6
EV/EBITDA (x)	46.1	42.7	33.0	24.5	19.2
EV/Net sales (x)	5.0	4.9	3.6	2.9	2.5
RoE (%)	8	9	12	16	19
RoCE (%)	15	13	18	24	32
Fixed Asset turnover (x)	1.5	1.4	1.6	1.8	2.0
FCF Yield (%)	0.1	(0.1)	0.4	0.8	3.1
Receivable (days)	51	69	68	65	65
Inventory (days)	36	43	40	35	35
Payable (days)	66	74	65	65	65
Revenue Growth (%)	5	2	33	21	15
EBIDTA Growth (%)	-7	8	26	34	25
EPS Growth, %	-46	33	89	60	36
Net D/E ratio (x)	0.5	0.4	0.0	(0.0)	(0.2)

Source: Company, Systematix Institutional Research

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DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

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.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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