

Minda Industries

HOLD

Expensive Valuation; Revised to HOLD

Summary

Minda Industries Ltd (MIL) Q4FY21 result was below our and above consensus estimates at operating level. EBITDA margin for the quarter stood at 13.5% vs our/consensus estimates of 15.5%/ 13.3% respectively mainly on account of higher RM cost. Revenue growth for the quarter was 49% YoY/10% QoQ to Rs22.4bn vs our estimates of Rs.21.6bn. The Company has completed the merger of Harita Seating limited from 1st April 2021. The merger is effective from 1st April 2019. We build our FY22/FY23 revenue estimates by 30%/20% respectively factoring the strong growth in FY22 on account of low base of FY21 and Harita seating merger. We expect revenue/earnings to grow at 25%/70% CAGR over FY21-FY23E with EBITDA margin of 13.2%. Due to recent rally in share price and subsequent over valuation we change our rating to HOLD (earlier ACCUMULATE) with a TP of Rs658 (earlier Rs585) based on PER of 30x FY23E EPS.

Key Highlights and Investment Rationale

- Revenue above estimates:** Consolidated revenue increased 49% YoY/10% QoQ to Rs22.4bn whereas industry production for 4W/2W were up 27% YoY/29% YoY respectively to 1.06mn/5.7mn units. Revenue from switch business grew 11% YoY/-18% QoQ to Rs 5.8bn whereas lighting business revenue grew 73% YoY/1% QoQ to Rs4.9bn. Employee cost increased 26% YoY/9% QoQ to Rs3bn. Other expenses increased 8% YoY/-2% QoQ to Rs2.4bn. EBITDA increased 116% YoY/8% QoQ to Rs3bn. EBITDA margin for the quarter stood at 13.5% on account of higher RM cost. Depreciation increased 20% YoY/7% QoQ to Rs1.07bn as new plants of alloy wheel/sensor has been commissioned and capitalized during the quarter. Adj. PAT increased 780% YoY/20% QoQ to Rs1.6bn
- Outlook:** The 2nd Covid wave has hit the rural economy hard this time. The bottom of pyramid majorly contributing to 2W commuter segment will take time to recover. We expect there would be increased preference to personal mobility due to the fear of 3rd Covid wave. Minda Industries will grow higher than the Industry growth rate due to its good product portfolio and various capacity expansions initiatives. The company would be spending Rs3500mn in its various capacity expansions. The management plans to double the revenue from Harita seating in 3 to 4 years.

TP	Rs658	
CMP	Rs656	
Potential upside / downside	0%	
Previous Rating	ACCUMULATE	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	12.1	21.9
Consensus	14.6	20.1
% difference	(17.2)	8.9

Shareholding Pattern (%)

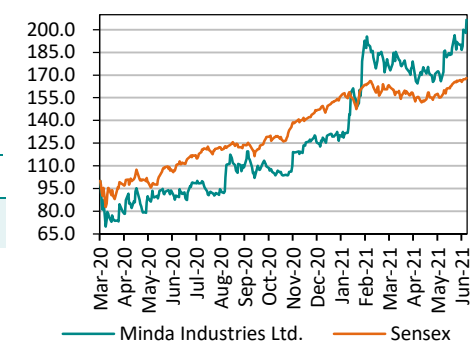
Promoters	70.9
FII	9.6
DII	10.5
Public	9.0

Price Performance (%)

	-1m	-3m	-12m
Absolute	28.4	20.0	133.9
Rel to Sensex	20.7	15.9	75.9

Key Stock Data	
Bloomberg/Reuters	MINDA IN / MINDA.BO
Sector	Auto Ancillary
Shares o/s (mn)	272
Market cap. (Rs mn)	178,331
Market cap. (US\$ mn)	2,432
3-m daily average value (Rs mn)	223.7
52-week high / low	Rs642 / 265
Sensex / Nifty	52,502 / 15,768

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	59,081	62,220	63,737	83,030	99,325
EBITDA	7,252	6,718	7,250	10,379	13,111
EBITDA (%)	12.3	10.8	11.4	12.5	13.2
Adj. PAT	2,856	1,896	2,049	3,286	5,964
EPS (Rs)	10.9	7.2	7.5	12.1	21.9
Adj. EPS Growth (%)	(65.4)	(33.6)	4.1	60.4	81.5
PE (x)	49.3	74.3	71.4	44.5	24.5
Adj. Dividend Yield (%)	0.2	0.2	0.2	0.3	0.6
EV/EBITDA (x)	20.6	22.0	21.0	14.9	11.3
RoE (%)	18.5	10.1	10.0	13.5	20.7
RoCE (%)	15.1	8.6	8.1	10.3	15.7

Source: IDBI Capital Research; Note: Harita Financials has been added from FY20.

Concall

- **Harita Seating Acquisition:** The Company has completed the merger of Harita Seating limited from 1st April 2021. The merger is effective from 1st April 2019. The board of directors has approved the purchase of a further 49% stake from existing JV partner F.S Fehrer Automotive, GMBH for a purchase consideration of Rs.1,150mn. It will be a 100% subsidiary of Minda Industries.
- **Capacity Utilization:** The Company's revenue in Q4FY21 grew 49% YoY Vs Industry growth of 31% YoY. The company was operating at 85% to 90% utilization in most of its plants.
- **Minda Onkyo & Minda TTE DAPS:** Minda Onkyo & Minda TTE DAPS has underperformed and as per the accounting rules, the company has taken the provision of Rs.100mn in standalone results for Q4FY21.
- **Dividend:** The Board has recommended a final dividend of Rs0.5 per share. The total dividend is Rs0.85 per share. The dividend Payout ratio is 11.2%.
- **Segmental Developments:**
 - **Switches:** The switches segment contributed 26%/28% for Q4FY21 and FY21 respectively. The company has acquired the new business in switches from American Motorcycle Company. For 2 Wheeler switches the company has received orders for self-design power windows, power sockets. An order from Korean OEMs to supply in Russia and Indonesia market. A total of 30 switch orders for Japanese OEMs in India.
 - **Lightning:** The lightning segment contributed 22% in Q4FY21 and FY21. The company has received orders to supply lights to traditional OEMs and now looking to increase the volume shares. The company got an order of 4W lights for global OEM.
 - **Acoustic Business:** The segment contributed 7%/10% in Q4FY21/FY21 respectively. The 2 Wheeler alloy wheel projects 3rd line is commissioned and 4th line will be commissioned in Q2FY22. Capacity expansion in 4W alloy at Bawal is in progress. European Subsidiary Clanton Horn has received a new order from Japanese and European OEMs.
 - **Seating Business:** The segment contributed 11%/10% in Q4FY21/FY21 respectively. For Harita, Seating management is expecting to double the revenue of the company in 3 to 4 years from Rs.7,500mn.
 - **Other Business:** In Q4FY21 revenue contribution was Rs.4.4bn i.e 20% in Q4FY21/FY21 respectively. This business mainly constitutes of the sensor (Rs. 640mn), Katolec (Rs.340mn), Blow molding business (Rs.540mn), Battery Business (Rs.380mn).

- **Mix:**
 - **Geographic Mix:** For Q4 FY21, India/ International are 83%/17%. For FY21, India/ International are 84%/16%.
 - **Channel Mix:** For Q4 FY21, OEMs/ Replacement are 89%/11%. For FY21, OEMs/ Replacement are 88%/12%.
 - **Segment Mix:** For Q4 FY21, 2W/4W are 49%/51%. For FY21, 2W/4W are 47%/53%.
- **After Market:** The Company has a network of 40,000+ retailers for the after-market channel. Aftermarket is also exporting products to SAARC, LATM, ASEAN, MENA, and African Market. The company is adding dealers without taking any credit risk. The company has also increased its products in aftermarket channels e.g. Four-wheel alloy, air brakes. The battery segment has also done well for the company.
- **Associates Profit:** In Q4FY21, almost all associates did including TTE and Onkyo TTE, and Onkyo loss reduced to Rs.10mn on Q4FY21 from Rs.20mn in Q3FY21. In CNG kit, the growth is 80% to 100%.
- **EV:** The Company has an engine agnostic product portfolio that can be supplied to EV as well. EV creates additional opportunities to grow. The company is also developing its existing products to meet the requirements of EVs like low electricity consumption and lightweight. It is working on headlights, tail lamps, and indicators. The company focuses on developing products for 2W and 3W includes DC-DC Converters, onboard and up board chargers, Telematics control units, and smart plugs. The company is also developing a battery management system for Lithium-Ion batteries along with its Technological partners. ECUs and smart plug went for production this year. The company is also evaluating Motor Controller as a product. These new products have a potential kit value of Rs.33,000 out of which Rs.7,300 is existing and Rs.2,000 pertaining to the positive impact of lightning and sensors. Product under development has a potential value of Rs.4,500.
- **CAPEX:** The company did a total CAPEX of Rs.2.76bn in FY21 including 2W alloy business. The company has announced an additional capacity at Gujarat for 4 Wheeler automotive lighting with CAPEX of Rs.900mn. The plant will commence operation by March 2022. The company has also announced CAPEX of Rs.570mn for its blow molding business for setting a plant in Bangalore. It will also do alloy wheel expansion in Bawal and the CAPEX would be Rs1.67bn. The total CAPEX spent would be Rs.6bn in FY22 i.e Rs.3.5bn for Growth and Rs.2.5bn for maintenance.
- **Net Debt:** The company net debt as on 31st March 2021 stood at Rs.7.98bn Vs Rs.8.56bn as of 31st March 2020. The company's net debt to equity stood at 0.3x Vs 0.4x in March20. Gross Debt as of March 20 is Rs.12bn and in March 21 is Rs.10.5bn.

Exhibit 1: Consolidated Quarterly Snapshot

(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	22,383	14,978	20,312	49.4	10.2	63,737	62,220	2.4
Expenditure	19,367	13,579	17,523	42.6	10.5	56,488	55,502	1.8
<i>as % of sales</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>			<i>100.0</i>	<i>100.0</i>	
Consumption of RM	14,044	9,045	12,396	55.3	13.3	39,193	38,103	2.9
<i>as % of sales</i>	<i>72.5</i>	<i>66.6</i>	<i>70.7</i>			<i>69.4</i>	<i>68.7</i>	
Employee Cost	2,965	2,352	2,724	26.1	8.9	9,817	9,438	4.0
<i>as % of sales</i>	<i>15.3</i>	<i>17.3</i>	<i>15.5</i>			<i>17.4</i>	<i>17.0</i>	
Other expenditure	2,358	2,182	2,403	8.1	(1.9)	7,478	7,961	(6.1)
<i>as % of sales</i>	<i>12.2</i>	<i>16.1</i>	<i>13.7</i>			<i>13.2</i>	<i>14.3</i>	
EBITDA	3,016	1,399	2,789	115.6	8.1	7,250	6,718	7.9
Depreciation	1,072	895	1,004	19.8	6.8	3,753	3,401	10.4
EBIT	1,944	504	1,785	285.7	8.9	3,497	3,317	5.4
Other Income	89	140	166	(36.5)	(46.5)	470	405	16.2
Interest	151	220	200	(31.2)	(24.4)	737	942	(21.8)
Exceptional Item	0	-89	0	NA	NA	17	-345	NA
PBT	1,882	336	1,752	460.9	7.5	3,248	2,436	33.3
Total Tax	476	147	474	225.0	0.4	1,005	686	46.5
Adjusted PAT	1,638	186	1,366	779.4	19.9	2,054	1,799	14.2
Reported PAT	1,406	189	1,277	643.6	10.1	2,066	1,552	33.2
Adjusted EPS	6.0	0.7	5.0	779.4	19.9	7.6	6.9	14.2
Margins (%)				(bps)	(bps)			(bps)
EBIDTA	13.5	9.3	13.7	413	(26)	11.4	10.8	58
EBIT	8.7	3.4	8.8	532	(10)	6.6	5.3	131
EBT	8.4	2.2	8.6	617	(21)	5.5	5.3	15
PAT	7.3	1.2	6.7	608	59	3.2	2.9	33
Effective Tax rate	25.3	43.7	27.1	(1,836)	(178)	31.0	28.2	278

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

Rs mn	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	13,061	8,270	11,932	57.9	9.5	37,006	35,247	5.0
Expenditure	11,607	7,677	10,588	51.2	9.6	33,614	32,294	4.1
<i>as % of sales</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>0.0</i>	<i>0.0</i>	<i>100.0</i>	<i>100.0</i>	
Consumption of RM	8,596	5,278	7,815	62.9	10.0	24,214	22,902	5.7
<i>as % of sales</i>	<i>74.1</i>	<i>68.8</i>	<i>73.8</i>	<i>7.7</i>	<i>0.3</i>	<i>72.0</i>	<i>70.9</i>	
Employee Cost	1,534	1,125	1,343	36.3	14.2	4,841	4,752	1.9
<i>as % of sales</i>	<i>13.2</i>	<i>14.7</i>	<i>12.7</i>	<i>(9.9)</i>	<i>4.2</i>	<i>14.4</i>	<i>14.7</i>	
Other expenditure	1,477	1,273	1,430	16.1	3.3	4,560	4,641	(1.7)
<i>as % of sales</i>	<i>12.7</i>	<i>16.6</i>	<i>13.5</i>	<i>(23.2)</i>	<i>(5.8)</i>	<i>13.6</i>	<i>14.4</i>	
EBITDA	1,454	594	1,344	144.9	8.2	3,392	2,953	14.9
Depreciation	518	416	481	24.6	7.6	1,779	1,561	13.9
EBIT	936	178	863	425.8	8.5	1,614	1,392	15.9
Other Income	42	168	70	(75.3)	(40.7)	456	649	(29.7)
Interest	70	117	108	(40.4)	(35.0)	385	490	(21.4)
PBT	908	229	825	296.7	10.0	1,684	1,551	8.6
Total Tax	245	28	214	123.3	(39.1)	485	231	109.5
Adjusted PAT	663	201	611	96.4	(4.5)	1,261	1,231	2.4
Extra ordinary items Loss/(Gain)	0	0	0	NA	NA	100	428	-76.6
Reported PAT	563	201	611	133.7	(4.5)	1,190	892	33.4
Adjusted EPS	2.3	1.1	2.4	96.4	(4.5)	4.7	4.6	2.4
Margins (%)				<i>(bps)</i>	<i>(bps)</i>			<i>(bps)</i>
EBIDTA	11.1	7.2	11.3	395	(13)	9.2	8.4	79
EBIT	7.2	2.2	7.2	502	(6)	4.4	4.0	41
EBT	7.0	2.8	6.9	418	4	4.6	4.4	15
PAT	5.1	2.4	5.1	264	(4)	3.4	3.5	(8)
Effective Tax rate	27.0	12.1	26.0	1,494	102	28.8	14.9	1,385

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)	Actual	IDBI Est	% Variance	Consensus	% Variance
Net sales	22,383	21,619	3.5	16,521	35.5
EBITDA	3,016	3,351	(10.0)	2,191	37.6
Margin (%)	13.5	15.5	(203) bps	13.3	21 bps
Adj net income	1,638	1,614	1.5	974	68.3
FDEPS (Rs)	6.0	6.2	(2.1)	3.6	68.3

Source: IDBI Capital Research

Exhibit 4: Change in estimates

(Rs mn)	FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	68,018	83,030	22.1	77,060	99,325	28.9
EBITDA	8,502	10,379	22.1	10,018	13,111	30.9
Margin (%)	12.5	12.5	0 bps	13.0	13.2	20 bps
Net Profit	2,980	3,286	10.3	3,782	5,964	57.7
FDEPS	11.0	12.1	10.3	13.9	21.9	57.7

Source: IDBI Capital Research

Exhibit 5: Revenues from segments

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Switches	5,327	4,894	4,511	5,242	1,251	4,688	7,109	5,820
YoY %	(9.1)	(19.2)	(15.5)	(4.7)	(76.5)	(4.2)	57.6	11.0
Lightining	3,455	3,127	3,184	2,846	1,210	3,663	4,875	4,924
YoY %	9.8	(5.3)	(5.4)	(16.8)	(65.0)	17.1	53.1	73.0
Accoustic	1,728	1,631	1,592	1,648	667	1,612	2,031	1,567
YoY %	(13.7)	(9.1)	(5.8)	(14.7)	(61.4)	(1.2)	27.6	(4.9)
LMT	2,016	2,039	1,858	1,797	250	1,758	3,047	3,134
YoY %				(13.6)	(87.6)	(13.8)	64.0	74.3
Seatings				1,648				2,462
YoY%								49.4
Others	1,872	1,903	2,123	1,648	793	2,784	3,250	4,477
YoY%	(43.1)	(53.2)	(50.7)	(14.7)	(57.7)	46.2	53.1	171.7

Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	62,220	63,737	83,030	99,325
<i>growth (%)</i>	5.3	2.4	30.3	19.6
Operating expenses	(55,502)	(56,488)	(72,651)	(86,214)
EBITDA	6,718	7,250	10,379	13,111
<i>growth (%)</i>	(7.4)	7.9	43.2	26.3
Depreciation	(3,401)	(3,753)	(5,936)	(5,400)
EBIT	3,317	3,497	4,443	7,711
Interest paid	(942)	(737)	(597)	(509)
Other Income	405	470	564	677
Exceptional items	(345)	17	-	-
Pre-tax profit	2,436	3,248	4,410	7,879
Tax	(686)	(1,005)	(1,058)	(1,891)
<i>Effective tax rate (%)</i>	28.2	31.0	24.0	24.0
PAT before Min Int	1,750	2,243	3,352	5,988
Share of associates	130	242	313	405
Share of minority int	328	418	378	430
Reported PAT	1,552	2,066	3,286	5,964
Adj. PAT	1,799	2,054	3,286	5,964
<i>growth (%)</i>	(37.0)	14.2	60.0	81.5
<i>Shares o/s (mn nos)</i>	262.0	271.9	271.9	271.9

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	2,436	3,248	4,410	7,879
Depreciation	3,401	3,753	5,936	5,400
Tax paid	(282)	(1,116)	(1,058)	(1,891)
Chg in working capital	9,641	(3,369)	(5,368)	(2,599)
Other operating activities	(4,666)	868	33	(168)
Cash flow from operations (a)	10,529	3,384	3,952	8,621
Capital expenditure	(13,631)	(2,721)	(6,000)	(2,500)
Chg in investments	(178)	(1,552)	-	-
Other investing activities	5,706	430	564	677
Cash flow from investing (b)	(8,352)	(3,610)	(5,436)	(1,823)
Equity raised/(repaid)	454	2,132	-	-
Debt raised/(repaid)	658	(1,654)	-	(100)
Dividend (incl. tax)	(275)	(231)	(489)	(816)
Chg in minorities	(37)	60	313	405
Other financing activities	(1,759)	(709)	(1,564)	(1,335)
Cash flow from financing (c)	(959)	(402)	(1,086)	(1,425)
Net chg in cash (a+b+c)	1,218	(628)	(2,570)	5,374

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	30,343	29,311	29,375	26,474
Investments	3,734	5,286	5,286	5,286
Other non-curr assets	1,111	691	691	691
Current assets	20,621	24,486	25,407	36,567
Inventories	6,095	7,506	12,063	14,988
Sundry Debtors	8,632	11,988	10,455	12,990
Cash and Bank	3,409	2,382	279	5,979
Marketable Securities	250	16	16	16
Loans and advances	224	302	302	302
Total assets	55,809	59,774	60,759	69,019
Shareholders' funds	18,611	22,566	26,017	31,586
Share capital	524	544	544	544
Reserves & surplus	18,086	22,022	25,473	31,042
Total Debt	10,183	8,529	8,529	8,429
Secured loans	7,803	5,391	5,391	5,291
Unsecured loans	2,380	3,138	3,138	3,138
Other liabilities	2,147	2,101	1,601	1,101
Curr Liab & prov	22,040	23,515	21,170	24,032
Current liabilities	20,460	21,774	19,330	21,865
Provisions	1,579	1,741	1,840	2,166
Total liabilities	34,369	34,144	31,300	33,561
Total equity & liabilities	55,809	59,774	60,759	69,019
Book Value (Rs)	71	83	96	116

Source: Company; IDBI Capital Research

Note: Harita Financials added from FY20 onwards

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	7.2	7.5	12.1	21.9
Adj. EPS growth (%)	(33.6)	4.1	60.4	81.5
EBITDA margin (%)	10.8	11.4	12.5	13.2
Pre-tax margin (%)	3.9	5.1	5.3	7.9
ROE (%)	10.1	10.0	13.5	20.7
ROCE (%)	8.6	8.1	10.3	15.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.3	1.1	1.4	1.5
Leverage factor (x)	2.8	2.8	2.5	2.3
Net margin (%)	3.0	3.2	4.0	6.0
Net Debt/Equity (x)	0.4	0.3	0.3	0.1
Working Capital & Liquidity ratio				
Inventory days	36	43	53	55
Receivable days	51	69	46	48
Payable days	74	83	53	55

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	74.3	71.4	44.5	24.5
Price / Book value (x)	7.6	6.5	5.6	4.6
PCE (x)	26.6	25.2	15.9	12.9
EV / Net sales (x)	2.4	2.4	1.9	1.5
EV / EBITDA (x)	22.0	21.0	14.9	11.3
Adj. Dividend Yield (%)	0.2	0.2	0.3	0.6



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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