

Minda Industries

16 August 2021

Operating de-leverage hurts profitability

RESULT UPDATE

Sector: Auto **Rating:** BUY
CMP: Rs 698 **Target Price:** Rs 750

Stock Info

Sensex/Nifty	55,591/ 16,560
Bloomberg	MNDA IN
Equity shares (mn)	262mn
52-wk High/Low	Rs 832/280
Face value	Rs 2
M-Cap	Rs 198bn/USD 2.7bn
3-m Avg volume	USD 0.8mn

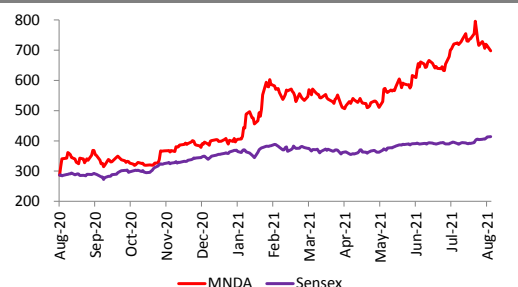
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Net Sales	63,737	80,635	93,226
EBIDTA	7,250	10,886	12,772
PAT	2,411	5,047	6,542
EPS (Rs)	8	19	24
PE (x)	90.8	37.1	28.7
EV/EBITDA (x)	26.0	16.9	14.3
RoE (%)	9	19	20
RoCE (%)	13	25	26
FCF yield (%)	(0.1)	2.8	1.2

Shareholding Pattern (%)

	Jun '21	Mar '21	Dec '20
Promoter	70.0	70.9	70.9
–Pledged	-	-	-
FII	9.0	9.6	9.6
DII	10.9	10.5	10.2
Others	10.1	9.0	9.3

Stock Performance (1-year)



Minda Industries (MNDA IN) delivered a mixed set of 1QFY22 numbers wherein topline beat our estimates but EBITDA margin was below expectations. The management highlighted that new order wins remain robust across segments and the company is embarking on the next leg of growth capex (Rs 3.5bn in FY22). It expects strong business growth in the medium-term driven by a ramp-up in the alloy wheel segment, sensors and order wins in the EV segment. It has raised Rs 7bn via QIP for preference shares repayment in lieu of Harita acquisition and growth capex. [Quicker recovery in the passenger vehicles](#) (PV) industry from the second wave of COVID is benefiting MNDA (PVs contribute to ~65% of its sales, including JVs). We keep our estimates largely unchanged and maintain our BUY rating on the stock with a target price of Rs 750 (15x FY23E EV/EBITDA + Rs 50 for JVs).

Key concall takeaways:

- Segment-wise revenue performance:** MNDA reported a 28% QoQ decline in 1QFY22 revenue against industry volume decline of ~35% QoQ. Switches, lighting, acoustics, light metal technologies (LMT), seatings (Harita merger completed in 4QFY21) and other segments declined by 26%, 35%, 8%, 13%, 22% and 50% QoQ, respectively.
- Revenue mix:** Revenue contribution from segments viz. switches, lighting, acoustics, LMT, seatings and others was 27%, 20%, 9%, 17%, 12% and 14%, respectively, in 1QFY22 vs. 26%, 22%, 7%, 14%, 11% and 20% QoQ. Geography-wise (India: International), channel-wise (OEM: Replacement) and segment-wise (2W: 4W), revenue mix for the company was 77: 23, 92: 8 and 46: 54, respectively, in 1QFY22 (83: 17, 89: 11 and 49: 51 for 4QFY21).
- Healthy new order wins:** MNDA bagged several new orders during the quarter 1) 2W LED headlamp orders from Indian and Japanese OEMs, 2) 4W alloy wheel orders from Korean & Japanese OEMs, 3) order for horns from European OEM and 4) export order for seatings of annual peak sales amounting to Rs 750mn from American & European CV OEM.
- Harita performance & outlook:** The company completed the acquisition of the remaining 49% stake in Harita in 4QFY21. While Harita's 1QFY22 performance was weak owing to subdued CV segment volumes (which forms ~50% of its revenues), the management expects an improvement going forward on the back of strong export revenues (currently at ~Rs 1bn but expected to ramp-up significantly over the next few years on the back of new orders), expected addition of a 2W customer during the fiscal and penetration in domestic 2W EV players (including new-age start-ups). It has reiterated its target of doubling the Harita revenues from FY20 levels of ~Rs 7.5bn over the next 3-4 years.
- 2W alloy wheels facility:** The new 2W alloy wheels plant reported revenue of ~Rs 400mn in 1QFY22, flattish QoQ due to COVID-led lockdowns in May'21. The management expects a significant QoQ ramp-up in revenues from the facility in 2QFY22.
- Increased focus on EVs:** MNDA expects significant incremental revenue opportunities in the EV space (2W EV kit value potential estimated at ~Rs 33,000). The company has launched many of its existing products for the EV segment (new sensors like brake pedal sensors, vacuum sensors). It is also working on new products like electronic control units, converters, telematics control units, smart plugs for 2W/3W EVs. The management is actively in talks with EV OEMs, including new-age start-ups in the space, for its products. It has already received orders for seatings from some new-age EV start-ups.
- Capex on track:** The company had guided for a capex of ~Rs 6bn in FY22E (FY21 capex at ~Rs 2.8bn) of which, Rs 2.5bn will be for maintenance while the balance for capacity expansion in 4W lighting (outlay of ~Rs 900mn), blow moulding (outlay of Rs 900mn) and

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alloy wheel (capex of Rs 1.7bn). Capex towards the aforesaid was Rs 300mn in 1QFY22 and the capacities are on track to be commissioned by 1QFY23E.

- **Net debt & FCF:** Net debt was at Rs 12.3bn (including convertible preferential shares worth Rs 2.3bn), up 54% QoQ, with net debt/equity at 0.47x. With proceeds from the QIP, MNDA plans to lower net debt/equity to ~0.3x by the end of the fiscal.

Valuation and outlook: We estimate MNDA to deliver revenue/EBITDA/PAT CAGRs of 21%/33%/65% between FY21-23E. At the CMP, the stock trades at a PER of 28.7x and EV/EBITDA of 14.3x at FY23E.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	16,026	15,642	2.5	16,770	(4.4)
EBITDA	1,467	1,955	(25.0)	1,878	(21.9)
EBITDA Margin (%)	9.2	12.5	(26.8)	11.2	(204)
Adj PAT	343	690	(50.3)	607	(43.5)
Adj EPS	1.3	2.6	(50.3)	2.4	(45.1)

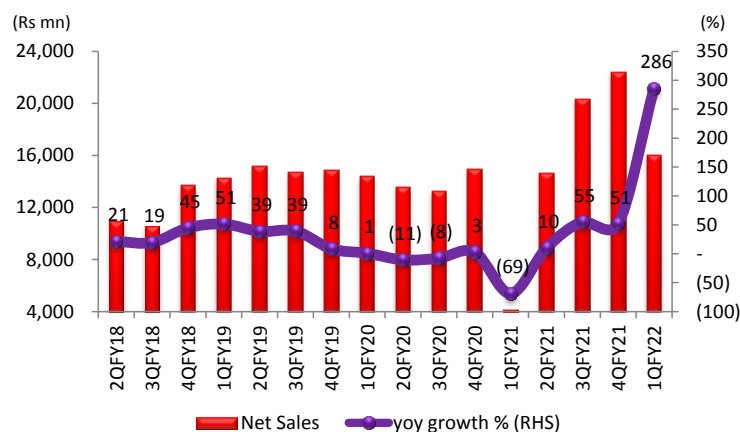
Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 2: Consolidated financial trend

Consolidated (Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Net Sales	4,171	14,650	20,312	22,383	16,026	284.2	(28.4)
- Raw Material	2,417	8,813	12,396	14,044	9,820	306.3	(30.1)
(% of Net Sales)	57.9	60.2	61.0	62.7	61.3	333	-147
- Staff Expenditure	1,663	2,041	2,724	2,965	2,762	66.1	(6.8)
(% of Net Sales)	39.9	13.9	13.4	13.2	17.2	-2,264	399
- Other Expenditure	806	1,642	2,403	2,358	1,977	145.3	(16.2)
(% of Net Sales)	19.3	11.2	11.8	10.5	12.3	-698	180
Total Expenditure	4,886	12,496	17,523	19,367	14,559	198.0	(24.8)
EBITDA	-715	2,154	2,789	3,016	1,467	(305.2)	(51.4)
EBITDA Margin (%)	(17.1)	14.7	13.7	13.5	9.2	2,629	-432
Depreciation	682	810	1,004	1,072	905	32.7	(15.5)
EBIT	-1,397	1,344	1,785	1,944	562	(140.2)	(71.1)
Interest	196	181	200	151	185	(5.4)	22.6
Other Income	37	125	166	89	61	64.6	(31.0)
Exceptional Items	0	0	0	17	0		
PBT	-1,556	1,288	1,752	1,882	438	(128.2)	(76.7)
Tax	-368	444	474	476	139	(137.8)	(70.8)
Tax rate (%)	23.7	34.4	27.1	25.3	31.8	810	647
PAT before minorities	-1,187	845	1,277	1,406	299	(125.2)	(78.7)
Profit from JV	-162	100	89	215	-50	(69.0)	(123.4)
Minority	166	-137	-212	-235	95	(43.1)	(140.2)
Reported PAT	-1,183	808	1,154	1,403	343	(129.0)	(75.5)
Adjusted PAT	-1,183	808	1,154	1,386	343	(129.0)	(75.2)
Adjusted EPS (Rs)	-4.5	3.1	4.4	5.4	1.3	(129.0)	(75.5)

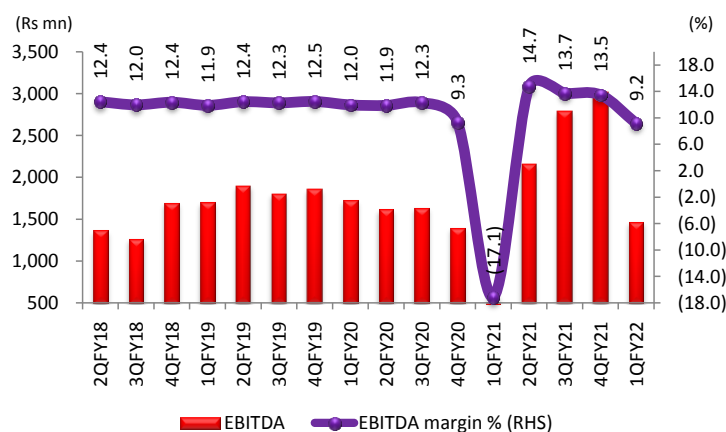
Source: Company, Systematix Institutional Research

Exhibit 3: Quarterly revenue and growth trend



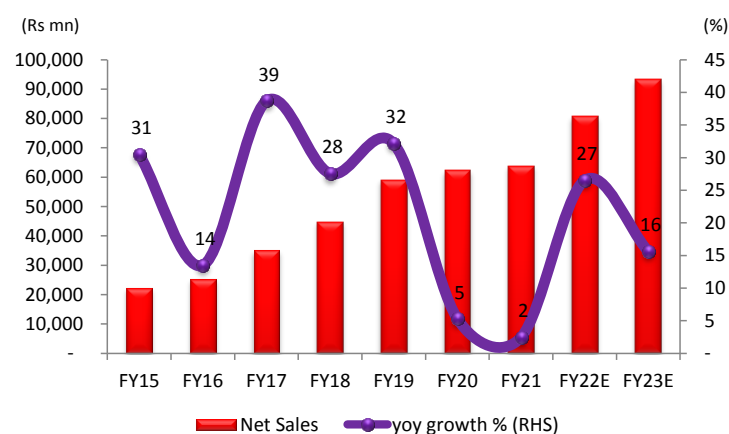
Source: Company, Systematix Institutional Research

Exhibit 4: Quarterly EBITDA and margin profile



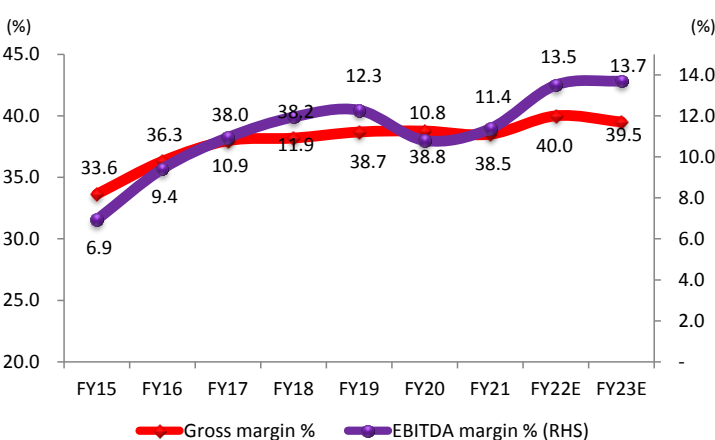
Source: Company, Systematix Institutional Research

Exhibit 5: Revenue and growth trend



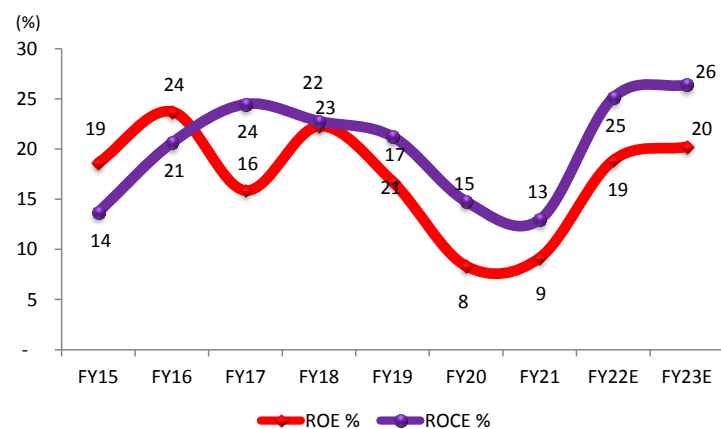
Source: Company, Systematix Institutional Research

Exhibit 6: Gross and EBITDA margin trend



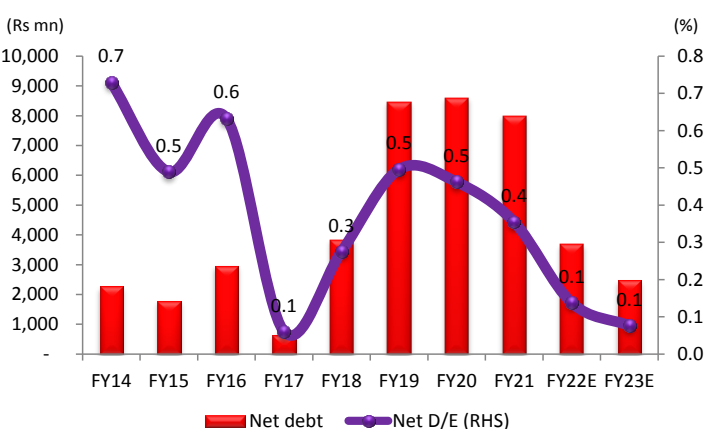
Source: Company, Systematix Institutional Research

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	17,846	21,773	25,256
Lights	10,240	11,640	12,930	12,230	14,022	16,546	18,532
Horns	6,590	7,170	7,170	6,530	6,374	7,011	7,712
Casting	2,000	2,520	2,930	3,000	2,820	3,384	3,858
Alloy wheels	1,950	4,580	6,100	4,810	4,828	8,794	10,905
Seats				7,570	6,374	9,500	11,210
Others	2,160	2,996	6,250	7,940	11,472	13,626	15,753
Total	35,050	44,706	58,100	62,220	63,737	80,635	93,226
Growth (%)							
Switches	17	30	42	-10	-11	22	16
Lights	133	14	11	-5	15	18	12
Horns	27	9	0	-9	-2	10	10
Casting	23	26	16	2	-6	20	14
Alloy wheels	875	135	33	-21	0	82	24
Seats					-16	49	18
Others	-38	39	109	27	44	19	16
Total	39	28	30	7	2	27	16

Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	59,081	62,220	63,737	80,635	93,226
Growth, %	32%	5%	2%	27%	16%
RM expenses	(36,224)	(38,103)	(39,193)	(48,381)	(56,402)
Employee expenses	(7,913)	(9,438)	(9,817)	(10,966)	(12,679)
Other expenses	(7,691)	(7,961)	(7,478)	(10,402)	(11,374)
EBITDA	7,252	6,718	7,250	10,886	12,772
Growth, %	36%	-7%	8%	50%	17%
Margin, %	12.3	10.8	11.4	13.5	13.7
Depreciation	(2,344)	(3,401)	(3,753)	(4,030)	(4,311)
EBIT	4,909	3,317	3,497	6,856	8,460
Growth, %	33	-32	5	96	23
Margin, %	8.3	5.3	5.5	8.5	9.1
Interest paid	(632)	(942)	(737)	(740)	(499)
Other Income	270	405	470	806	932
Non-recurring Items	0	-345	17	0	0
Pre-tax profit	4,547	2,781	3,231	6,922	8,894
Tax provided	-1,341	-686	-1,005	-1,592	-2,046
Profit after tax	3,207	2,094	2,225	5,330	6,848
Profit from JVs less minority int-350		-543	-159	-266	-306
Net Profit	2,857	1,552	2,066	5,064	6,542
Growth, %	(8)	(46)	33	145	29
Net Profit (adjusted)	2,474	1,552	2,411	5,047	6,542

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	1,101	3,409	2,382	4,442	3,660
Marketable securities cost	0	0	0	0	0
Debtors	8,992	8,632	11,988	14,360	16,602
Inventory	5,610	6,095	7,506	7,069	7,662
Loans & advances	232	224	302	382	442
Other current assets	2,702	3,122	2,984	2,984	2,984
Total current assets	18,636	21,072	24,863	28,938	31,051
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)	(25,023)	(29,334)
Add: Capital WIP	1,501	3,600	1,343	1,343	1,343
Net fixed assets	20,112	30,343	29,311	31,281	30,469
Total assets	42,304	55,398	59,475	66,020	67,823
Current liabilities	14,497	23,206	24,789	29,320	27,607
Provisions	1,211	1,579	1,741	1,741	1,741
Total current liabilities	15,708	24,785	26,530	31,061	29,348
Debt	9,555	12,003	10,379	8,129	6,129
Total liabilities	25,263	36,788	36,909	39,190	35,477
Paid-up capital	524	524	544	544	544
Reserves & surplus	16,517	18,086	22,022	26,286	31,801
Shareholders' equity	17,041	18,611	22,566	26,830	32,345
Total equity & liabilities	42,304	55,398	59,475	66,020	67,822

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	7,506	9,548
Depreciation	2,344	3,401	3,753	4,030	4,311
Chg in working capital	-1,780	8,429	-3,496	1,666	-5,569
Total tax paid	-1,341	-686	-1,005	-1,592	-2,046
CFO	4,140	8,666	3,397	11,609	6,246
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	5,109	2,246
Debt raised/(repaid)	4,039	2,209	-1,431	-2,250	-2,000
Dividend (incl. tax)	-354	-440	-186	-799	-1,027
CFF	3,685	861	-372	-3,049	-3,027
Net chg in cash	-430	1,174	-585	2,060	-781
Opening cash balance	1,595	1,101	3,409	2,382	4,442
Closing cash balance	1,101	3,409	2,382	4,442	3,660

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	10.9	5.9	7.6	18.6	24.1
PER (x)	63.1	116.6	90.8	37.1	28.7
Price/Book (x)	10.6	9.7	8.3	7.0	5.8
EV/EBITDA (x)	26.0	28.1	26.0	16.9	14.3
EV/Net sales (x)	3.2	3.0	3.0	2.3	2.0
RoE (%)	17	8	9	19	20
RoCE (%)	21	15	13	25	26
Fixed Asset turnover (x)	1.9	1.5	1.4	1.5	1.7
FCF Yield (%)	(2.3)	0.2	(0.1)	2.8	1.2
Receivable (days)	56	51	69	65	65
Inventory (days)	35	36	43	32	30
Payable (days)	49	66	74	65	65
Revenue Growth (%)	32	5	2	27	16
EBITDA Growth (%)	36	(7)	8	50	17
EPS Growth, %	(8)	(46)	28	145	29
Net D/E ratio (x)	0.5	0.5	0.4	0.1	0.1

Source: Company, Systematix Institutional Research

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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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