


BUY

Target Price
230

Acquisition of a 15.7% Stake in Pricol Ltd

On 17th Feb'23, **Minda Corporation Limited** acquired 19 Mn Equity Shares of Pricol Limited (Pricol), representing 15.7% of its total issued and paid-up equity share capital.

About Pricol Ltd

Pricol is a market leader in India with 50%/70%/50% market share in the 2W/CV and tractor segment respectively for Driver Information System and Sensors. The company is the world's 2nd largest producer of instrument clusters, which is also a focus area of Minda, and the potential acquisition of Pricol will help Minda consolidate its position as a market leader in the instrument cluster. Pricol has zero long-term debt and its working capital debt stands at a comfortable Rs 95 Cr.

Management Call Updates

- Rationale of the Acquisition:** The Management stated that this is purely a financial investment without providing Minda Corp any special rights in Pricol Limited other than the rights as a shareholder of Pricol Limited. This is an open-market transaction at an average price of Rs 208/share aggregating to Rs 400 Cr. After evaluating various opportunities and as per the mandate of the board, the company deployed its surplus investable cash for this acquisition.
- Debt/Equity:** Post this open market transaction, Minda's D/E ratio is 0.3 and Debt/EBITDA of 1:1. It has long-term debt of Rs 150 Cr and net short-term debt of Rs 260 Cr. The company reiterated that it has a strong balance sheet with enough cash flow generation capacity to support organic growth and meet its capex requirement. Moreover, the company continues to be on the lookout for any further inorganic growth opportunities.
- Future Synergies:** The management informed that the decision to invest currently is a financial investment. It currently only has a minority stake in Pricol and hence no synergies are expected from the acquisition.

Our view on the acquisition of a minority stake in Pricol:

The management foresees growth in the instrument cluster segment with kit value moving from Rs 400-500 per cluster to Rs 4,000-5000 per cluster led by premiumisation. The company sees value in moving from a mechanical cluster to incorporating the latest technology of the TFT (digital) cluster. Its revenue from clusters stood at 10% of total revenue in Q3FY23 from nil in Q3FY22. The acquisition will look logical from a strategic perspective. However, the management declined to comment on acquiring further strategic control over Pricol. We see the company will be able to generate positive FCF over the next two years. However, it could be utilised for organic capex and for inorganic acquisitions, we foresee that the company may need to raise debt. It has not given a target leverage ratio.

Company Outlook

The company reiterated its potential to grow ahead of the industry growth. We keep our investment rational, target price and rating unchanged for now. Our change in estimates is not material. In its Q3FY23 post results concall, the management stated that it is confident to attain 10%-12% higher growth than the overall industry average and reiterated its commitment towards optimizing margins through operational excellence, improving conversions, and material/employee cost performances.

Valuation & Recommendation

Post the business update call on Pricol, we continue to maintain our moderately positive view on Minda Corp as it will be a key beneficiary to product premiumization, EV growth, and increased business from CV/PV OEMs. We maintain our cautious outlook on the 2W domestic market and overall export market in the next few quarters (which forms 44% of Minda's revenue share by end market segment). We continue to value the stock at 16x FY25 EPS. Our unchanged TP of 230 implies an upside of 13.5% from the CMP.

Key Risks to our Estimates and TP

1. Inflation risks and interest rate hikes could impact 2W and entry-level PV volume uptake.
2. Macroeconomic headwinds on global demand
3. Government Regulations on EVs.

(CMP as of 20th Feb 2023)

CMP (Rs)	202.6
Upside /Downside (%)	14%
High/Low (Rs)	284/164
Market cap (Cr)	4,843
Avg. daily vol. (6m) Shrs.	5,73,428
No. of shares (Cr)	23

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	64.73	64.73	64.73
FII	3.69	4.38	3.6
MFs / UTI	5.44	5.61	5.84
Banks / FII	0.00	0.00	0.00
Others	26.14	25.28	25.83

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	4,444	4,890	5,379
EBITDA	485	559	637
Net Profit	232	283	344
EPS (Rs.)	9.7	11.8	14.4
PER (x)	20.8	17.1	14.1
EV/ EBITDA	10.2	8.7	7.3
P/BV	3.1	2.6	2.2
ROE (%)	16.0	16.6	17.1

Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
PAT	-0.2%	-1.3%	0.0%

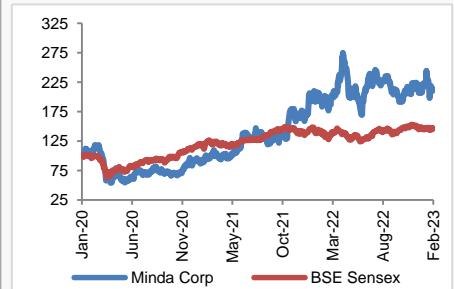
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Bloomberg, AxisSecurities.

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Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net sales	2,976	4,444	4,890	5,379
Other operating income	0	0	0	0
Total income	2,976	4,444	4,890	5,379
Raw Material	1,876	2,899	3,114	3,402
Employee expenses	474.2	622.7	728.1	801.0
Other expenses	331.3	437.8	489.0	537.9
EBIDTA	295	485	559	637
Other income	24	17	23	29
PBIDT	319	502	581	666
Depreciation	112	137	151	151
Interest & Fin Chg.	31	39	36	40
E/o income / (Expense)	33	0	0	0
Pre-tax profit	209	326	394	475
Tax provision	24	83	100	121
(-) Minority Interests	0	0	0	0
Associates	7	-10	-10	-10
Reported PAT	163	232	283	344
Adjusted PAT	159	232	283	344

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Total assets	1,889	2,112	2,340	2,629
Net Block	720.2	702.8	683.4	664.0
CWIP	32.5	112.5	200.5	288.5
Goodwill	92.9	92.9	92.9	92.9
Investments	64.2	464.2	464.2	464.2
Wkg. cap. (excl cash)	646	703	761	824
Cash / Bank balance	333.4	35.9	138.0	295.8
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	1,889	2,112	2,340	2,629
Equity capital	47.8	47.8	47.8	47.8
Reserves	1,282	1,508	1,785	2,122
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	542	537	487	437
Def Tax Liabilities	17.3	19.1	21.0	22.9

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sources	447.4	359.9	379.9	440.7
Cash profit	327	419	481	545
(-) Dividends	16.7	16.7	16.7	16.7
Retained earnings	310.7	402.0	464.0	528.4
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	35.7	0.0	0.0	0.0
Borrowings	61.2	(5.0)	(50.0)	(50.0)
Others	39.8	(37.1)	(34.2)	(37.8)
Applications	447.4	359.9	379.9	440.7
Capital expenditure	460.4	200.0	220.0	220.0
Investments	(116.3)	400.0	0.0	0.0
Net current assets	249.0	57.4	57.8	62.9
Change in cash	(145.8)	(297.5)	102.1	157.8

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sales growth	25.7	49.3	10.0	10.0
EBIDTA margin	9.9	10.9	11.4	11.9
EBIDTA growth	35.7	64.6	15.2	14.1
COGS / Net sales	27.1	23.9	24.9	24.9
Overheads/Net sales	31.7	28.3	29.0	29.1
Depreciation / G. block	9.4	10.5	10.5	9.6
Effective interest rate	7.4	7.5	6.5	7.7
Net wkg.cap / Net sales	0.14	0.13	0.13	0.13
Net sales / Gr block (x)	2.5	3.4	3.4	3.4
RoCE	14.4	21.9	22.7	23.6
Debt / equity (x)	0.38	0.32	0.25	0.18
Effective tax rate	11.5	25.6	25.5	25.5
RoE	15.4	16.0	16.6	17.1
Payout ratio (Div/NP)	8.7	7.2	5.9	4.9
EPS (Rs.)	8.03	9.72	11.85	14.39
EPS Growth	263.6	21.1	21.8	21.5
Adj EPS (Rs.)	6.7	9.7	11.8	14.4
Adj EPS growth	68.6	46.0	21.8	21.5
CEPS (Rs.)	12.7	15.5	18.2	20.7

Source: Company, Axis Securities

Minda Corporation Ltd PriceChart and Recommendation History



Date	Reco	TP	Research
01-Apr-21	BUY	121	Top Picks
03-May-21	BUY	121	Top Picks
20-May-21	BUY	133	Result Update
01-Jun-21	BUY	148	Top Picks
01-Jul-21	BUY	148	Top Picks
02-Aug-21	BUY	155	Top Picks
12-Aug-21	BUY	148	Result Update
01-Sep-21	BUY	148	Top Picks
01-Oct-21	BUY	148	Top Picks
03-Nov-21	Hold	170	Result Update
07-Feb-22	BUY	230	Result Update
18-May-22	BUY	245	Result Update
08-Aug-22	BUY	270	Result Update
09-Sep-22	BUY	270	Company Update
07-Nov-22	BUY	255	Result Update
10-Feb-23	BUY	230	Result Update

Source: Axis Securities

About the analyst

1. **Sr Research Analyst:** **Aditya Welekar** is a PGDBM in Finance with 10 years of experience in Equity Market/Research.

2. **Research Associate:** **Shridhar Kallani** is a Chartered Accountant and a graduate from St.Xaviers College Kolkata.

Sector: Automobiles

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SELL	Less than -10%
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