

One-offs impact profitability, structural drivers remain

Minda Industries (MIL) reported a subdued Q4FY20 performance. Consolidated revenues were at ₹ 1,339 crore, down 10% YoY (4-W: 2-W at 48:52; OEM: aftermarket at 87:13). Consolidated EBITDA margins slid 320 bps QoQ to 9.1% tracking higher other expenses (includes MTM losses on forex of ~₹ 15 crore). Reported PAT for the quarter was at ₹ 7.3 crore, hurt by fall in revenues, margins (down 340 bps YoY) and ₹ 8.9 crore worth of exceptional charges for acquisition related expenses. For full year FY20, consolidated sales fell 7.5% YoY to ₹ 5,465 crore, with margins down 100 bps YoY to 11.3% and reported PAT down 46% YoY to ₹ 155 crore.

Topline growth visibility relatively intact

In FY20, base businesses formed ~72% of consolidated revenues (switches – 37%, lighting 23%, acoustics – 12%), while light metal technology (includes alloy wheels) and others (includes sensors, controllers) constituted 14% each. We expect a gradual improvement in utilisation levels till H2FY21E (~40-50% at present, with July indents promising as per management), post which commissioning of 2-W alloy wheel plant along with consolidation of Harita Seating Systems (the company expects to close the transaction by CY20 end; FY20 revenues ~₹ 744 crore) and expected general uptick in auto industry offtake is seen supporting overall topline. Once pandemic disruption impact subsides and kit value-led growth gains further momentum, we expect MIL to continue outperforming the industry and build 9.8% sales CAGR over FY20P-22E.

Product mix shift to aid margin trajectory

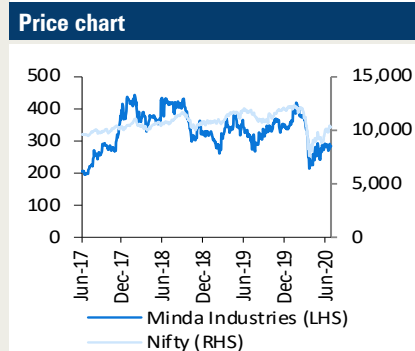
Going forward, we expect new age products (4-W, 2-W alloy wheels, air bags, LED lighting, sensors and controllers) to gain a more prominent role within overall revenue pie. The superior margin profile of these product lines (4-W alloy wheel margins expected to settle at ~20%, going forward, LED ASPs at 2.5-3x of halogen counterparts) along with cost control initiatives taken by the company are seen aiding a structural improvement in margins towards ~13% mark over the medium to long term.

Valuation & Outlook

We expect net sales, EBITDA, PAT CAGR of 9.8%, 14.2%, 30.4% CAGR, respectively, over FY20P-22E. We continue to like MIL for (1) its success in growing far ahead of ancillary pack & OEM clients over the years, (2) presence in emerging opportunities and (3) well diversified product and client base. We maintain **BUY** recommendation on MIL with a revised target price of ₹ 320, valuing it at 12x FY22E EV/EBITDA i.e. implied 33x P/E (FY22E EPS). We await the brief contours of the proposed rights issue before incorporating the same in our estimates.



Particulars	
Particulars	Amount
Market capitalisation (₹ crore)	7,210.5
Total Debt (FY 20P, ₹ crore)	1,181.7
Cash & Inv. (FY 20P, ₹ crore)	327.8
EV	8,064.4
52 week H/L (₹)	426 / 209
Equity capital (₹ crore)	52.4
Face value (₹)	2.0



- Key Highlights**
- Topline decline in Q4FY20 relatively limited to 10% YoY amid ~22% fall in domestic OEM volumes
 - Margins came off by 320 bps QoQ to 9.1%, tracking a rise in other expenses and impacted by one-off forex losses
 - MIL seen continuing to outperform ancillary pack, with revenue growth supported by inorganic route and kit value increase. Margins expected to be aided by shift in product mix towards emerging opportunities
 - Maintain BUY with revised target price of ₹ 320

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Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-22E)
Net Sales	4,471	5,908	5,465	5,654	6,595	9.8%
EBITDA	534	725	619	564	808	14.2%
EBITDA Margins (%)	11.9	12.3	11.3	10.0	12.3	
Net Profit	310	286	155	77	264	30.4%
EPS (₹)	11.8	10.9	5.9	2.8	9.6	
P/E	23.2	25.2	46.6	97.4	28.6	
RoNW (%)	21.3	19.0	10.3	5.1	13.6	
RoCE (%)	17.8	16.6	10.6	6.6	12.7	

Source: ICICI Direct Research, Company

Exhibit 1: Variance analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY%	Q3FY20	QoQ%	Comments
Total Operating Income	1,339	NA	1,486	-9.9	1,327	0.9	Revenue drop was fairly limited when compared to ~22% YoY decline in OEM volumes for the quarter. The company lost ~₹100-150 crore of sales on account of lockdown. Also, Q4FY20 numbers do not include ~₹40 crore of handle bar assembly business (now being done on job work basis).
Raw Material Expenses	802	NA	899	-10.8	795	0.8	
Employee Expenses	214	NA	203	5.9	209	2.6	
Other Expenses	201	NA	200	0.6	159	26.0	
EBITDA	122	NA	185	-34.2	163	-25.3	
EBITDA Margin (%)	9.1	NA	12.5	-336 bps	12.3	-320 bps	Margins declined by 320 bps QoQ tracking 300 bps rise in other expenses on percentage of sales. This includes ₹ 15 crore adverse impact of forex losses.
Depreciation	81.7	NA	68.2	19.8	75.1	8.8	
Interest	21.0	NA	20.4	2.7	21.6	-2.8	
Other Income	16	NA	13	22.1	11	41.2	
PBT (before exceptional)	35.3	NA	109.8	-67.9	78.0	-54.8	
Exceptional items	8.9	NA	0.0		5.2		Exceptional items for the quarter represent one-offs related to acquisition costs
Total Tax	13.3	NA	33.4	-60.3	19.4	-31.6	
Reported PAT	7.3	NA	73.5	-90.1	44.7	-83.7	PAT decline reflected fall in sales, margins, rise in depreciation and exceptional charges

Source: Company, ICICI Direct Research

Exhibit 2: Changes in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,363	5,654	-11.1	7,165	6,595	-8.0	We trim our revenue estimates for ML factoring in further downturn in automotive markets (especially OEM channel) on account of prolonged recovery post Covid-19.
EBITDA	732	564	-22.9	896	808	-9.8	
EBITDA Margin (%)	11.5	10.0	-152 bps	12.5	12.3	-26 bps	Sharper cut in margin estimates for FY21E reflects impact of negative operating leverage, with Q1FY21E having been a near washout already.
PAT	209	77	-63.0	324	264	-18.7	Downward revision in sales and margin estimates flow into profitability and earnings numbers
EPS (₹)	7.6	2.8	-63.0	11.8	9.6	-18.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(₹ crore)	Current					Earlier		Comments
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E	
Switches	1,475	2,237	2,014	1,712	1,969	1,863	2,087	We build 15% YoY decline in all base businesses i.e. switches, lighting and acoustics for FY 21E before factoring in an equivalent increase in the following year. LMT segment, however, is expected to outperform courtesy of 2-W alloy wheel plant commissioning during FY 21E.
Lighting	1,159	1,293	1,223	1,040	1,195	1,204	1,348	
Acoustics	671	717	653	555	638	637	700	
LMT	585	908	781	742	965	899	1,079	
Others	581	754	795	1,606	1,828	1,760	1,951	

Source: ICICI Direct Research

Conference Call Highlights

Demand and management guidance/outlook

- The company expects personal mobility to gain in a post Covid world, especially on entry level 2-W and PV side. **It continues to aim for 1.5x industry growth, going forward, and does not foresee any absolute drop in kit value per vehicle owing to Covid disruption**
- Present India utilisation levels are at 40-50% in India, with management commentary suggesting that indents for July are promising.** While supply chain issues are minimal, there are some migrant labour concerns. The company lost ₹ 100-150 crore of sales due to lockdown in March

Exhibit 4: Recent order wins

Segment	Product	Client	Comment
Switches	2-W switches	Piaggio	Combined worth ₹ 25 crore p.a. (₹ 15 crore Piaggio, ₹ 10 crore Hyundai)
	4-W switches	Hyundai	
Lighting	2-W lamps	TVS EV, Honda Dio	4-W lamp orders worth ₹100 cr+p.a.
	4-W lamps	LED tail lights - Maruti, Toyota	
Acoustics	Domestic	CV OEMs - Tata, M&M	Would be supplying electronic horns in India for the first time from September 2020
	International	Ford (Mexico, Spain)	Supplied by Clarton Horns
LMT	Die casting	Kia Motors	Large LPDC order; supply from H2CY 21
	2-W alloy wheel		Plant to be commissioned in Q2FY 21E
Others	Wireless chargers	Maruti for upcoming platform	
	Controllers	Royal Enfield, M&M	

Source: Company, ICICI Direct Research

- The 2-W alloy wheel business (August 2020) & sensors business (cam and crank BS-VI sensors – July/August, wheel speed sensors – CY20 end) is expected to commence production from Q2FY21E.** The company highlighted that both businesses are import substitution beneficiaries over the next three to five years
- The company expects 2-W alloy wheel business to post slightly over ₹ 100 crore revenues in FY21E and >₹ 300 crore in FY22E (at full capacity). Phase 1 has flexibility to increase capacities by 50% and could potentially grow to ~₹ 700-800 crore per annum revenues over the long term
- Sensors revenue in FY20 was ~₹ 133 crore, with potential for ₹ 300 crore over two years and ~₹ 500-600 crore per annum in four to five years**
- MIL expects revenues of ₹ 75 crore from telematics business in FY21E

Sales, costs and margins

- MIL's long-term vision for margins is at the ~13% mark, with 4-W alloy wheel margins expected to stabilise at the ~20% mark**
- Handle bar assembly business is being done on job work basis now. This led to fall of ~₹ 40 crore in revenues over the year ago period in Q4FY20.
- Q4FY20 margins were impacted by lockdown (₹ 30 crore) and MTM losses on forex items (₹ 15 crore; largely rupee and Mexican Peso). Additionally, profitability was further hurt by ~₹ 9 crore in acquisition related costs

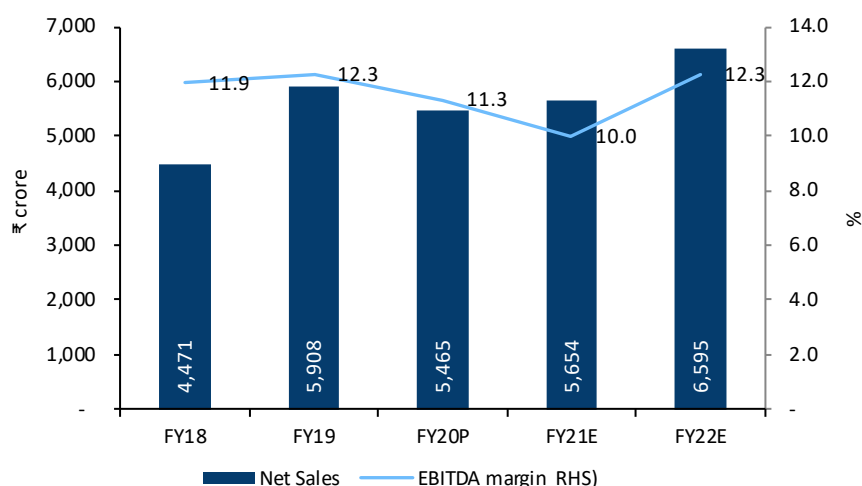
- MIL undertook actions on staff costs and rental agreement renegotiations. **Its fixed cost run rate is at ~₹ 75-85 crore per month.**
- MIL would incur ~₹ 21 crore for Harita acquisition costs in FY21E. It expects to close the transaction by CY20 end
- **MIL undertook impairment of ₹ 8.3 crore in Impairment in JV company Kosei Minda Aluminium Wheels (another 4-W alloy wheel company, 30% stake). It is re-evaluating its investment here amid lack of future visibility**
- Loss from associates/subsidiaries at ₹ 0.3 crore for the quarter was largely on account of Minda Onkyo (infotainment systems), Kosei Minda and TG Minda (air bags).
- Delvis recorded ₹ 45 crore revenues in Q4FY20

Others

- **The company said it needs no new capex for existing businesses, with only new product development and ongoing project capex to continue, going forward. FY21E capex guidance is at ~₹ 250-300 crore (maintenance capex ₹ 70-80 crore)**
- **Investment spend in FY21E would be to the tune of ~₹ 550 crore, including ₹ 400 crore for Harita. Harita acquisition could lead to ~2% equity dilution**
- Net debt as of FY20 was at ₹ 853 crore, with gross debt at ₹ 1,180 crore. MIL wants to maintain net debt to equity at <1x
- Present import levels in 4-W alloy wheel industry are at ~35%

Financial story in charts

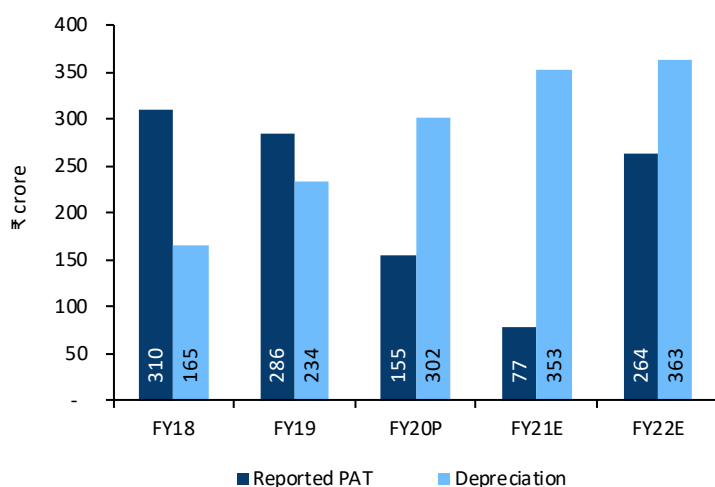
Exhibit 5: Topline and margin trend



Source: Company, ICICI Direct Research

We expect consolidated sales to grow by 9.8% CAGR over FY20P-22E to ₹ 6,595 crore, supported by inorganic acquisition of Harita Seating Systems and improvement in kit value. Margins, after suffering a dip in FY21E are expected to rise to 12.3% by FY22E on account of cost control initiatives and shift in product mix towards higher margin segments.

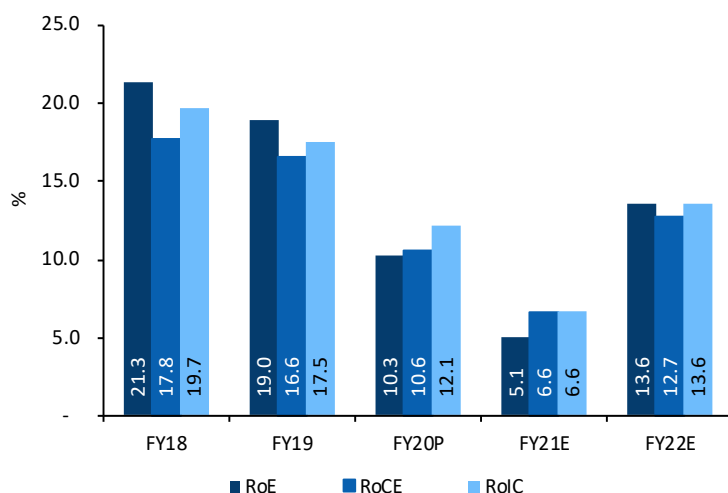
Exhibit 6: Profitability and depreciation trend



Source: Company, ICICI Direct Research

We expect consolidated PAT to grow at 30.4% CAGR over FY20P-22E to ₹ 264 crore. Depreciation costs are expected to rise substantially post 2-W alloy wheel plant and sensor plant commissioning as well as integration of Harita financials.

Exhibit 7: Trend in return ratios



Source: Company, ICICI Direct Research

Return ratios are seen rising to ~13% levels by FY22E

Exhibit 8: Key valuation metrics

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY 18	4,471	28.9	11.8	84.5	23.2	14.3	21.3	17.8
FY 19	5,908	32.2	10.9	(7.9)	25.2	11.3	19.0	16.6
FY 20P	5,465	(7.5)	5.9	(45.8)	46.6	14.7	10.3	10.6
FY 21E	5,654	3.5	2.8	(52.2)	97.4	10.0	5.1	6.6
FY 22E	6,595	16.6	9.6	240.7	28.6	0.0	13.6	12.7

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Shareholding pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	70.8	70.8	70.8	70.8	70.8
FII	11.0	11.3	11.5	11.3	10.9
DII	4.5	4.8	5.3	5.8	6.6
Others	13.7	13.1	12.5	12.2	11.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Net Sales	5908.1	5465.2	5654.2	6594.6	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	5,908.1	5,465.2	5,654.2	6,594.6	
Growth (%)	32.2	-7.5	3.5	16.6	
Raw Material Expenses	3,622.5	3,284.2	3,477.3	4,055.7	
Employee Expenses	791.3	846.8	903.5	939.7	
Other Operating Expense	769.1	715.1	709.0	791.3	
Total Operating Expenditure	5,182.9	4,846.1	5,089.9	5,786.7	
EBITDA	725.2	619.1	564.3	807.8	
Growth (%)	35.8	-14.6	-8.9	43.2	
Depreciation	234.4	301.9	353.4	362.7	
Interest	63.2	90.2	118.5	102.5	
Other Income	27.0	39.3	35.9	40.1	
PBT	454.7	266.2	128.3	382.7	
Others	35.0	33.9	15.0	12.0	
Total Tax	134.1	77.5	35.9	107.2	
PAT	285.6	154.9	77.4	263.6	
Growth (%)	-7.9	-45.8	-50.1	240.7	
EPS (₹)	10.9	5.9	2.8	9.6	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Profit after Tax	285.6	154.9	77.4	263.6	
Add: Depreciation	234.4	301.9	353.4	362.7	
(Inc)/dec in Current Assets	-290.3	175.9	-45.0	-268.3	
Inc/(dec) in CL and Provisions	0.4	363.2	-59.8	192.4	
Others	63.2	90.2	118.5	102.5	
CF from operating activities	293.2	1,086.2	444.5	652.9	
(Inc)/dec in Investments	-246.4	-54.3	-25.0	-25.0	
(Inc)/dec in Fixed Assets	-631.3	-809.7	-550.0	-300.0	
Others	99.1	28.6	20.0	24.0	
CF from investing activities	-778.6	-835.4	-555.0	-301.0	
Issue/(Buy back) of Equity	35.0	0.0	2.3	0.0	
Inc/(dec) in loan funds	472.2	100.5	300.0	-200.0	
Interest and Dividend outgo	-94.0	-102.8	-129.5	-129.9	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	22.6	-30.7	0.0	0.0	
CF from financing activities	435.9	-33.0	172.8	-329.9	
Net Cash flow	-49.5	217.8	62.4	22.0	
Opening Cash	159.5	110.0	327.8	390.2	
Closing Cash	110.0	327.8	390.2	412.2	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Liabilities					
Equity Capital	52.4	52.4	54.8	54.8	
Reserve and Surplus	1,651.7	1,763.3	1,829.7	2,065.9	
Total Shareholders funds	1,704.1	1,815.7	1,884.5	2,120.6	
Total Debt	1,081.2	1,181.7	1,481.7	1,281.7	
Deferred Tax Liability	0.6	13.5	13.5	13.5	
Minority Interest/ Others	342.3	358.0	378.0	402.0	
Total Liabilities	3,128.2	3,368.9	3,757.7	3,817.8	
Assets					
Gross Block	2,237.9	2,842.1	3,629.1	3,979.1	
Less: Acc Depreciation	523.0	825.0	1,178.3	1,541.0	
Net Block	1,714.9	2,017.1	2,450.8	2,438.1	
Capital WIP	131.5	337.1	100.0	50.0	
Total Fixed Assets	1,846.4	2,354.2	2,550.8	2,488.1	
Investments & Goodwill	530.2	584.5	609.5	634.5	
Inventory	561.0	555.3	542.2	632.4	
Debtors	899.2	726.4	774.5	903.4	
Loans and Advances	56.3	61.6	63.7	74.3	
Other Current Assets	227.6	224.9	232.6	271.3	
Cash	110.0	327.8	390.2	412.2	
Total Current Assets	1,854.1	1,895.9	2,003.3	2,293.5	
Current Liabilities	981.2	1,315.8	1,261.2	1,429.5	
Provisions	121.2	149.9	144.7	168.7	
Current Liabilities & Prov	1,102.4	1,465.6	1,405.8	1,598.2	
Net Current Assets	751.7	430.3	597.4	695.3	
Others Assets	0.0	0.0	0.0	0.0	
Application of Funds	3,128.2	3,368.9	3,757.7	3,817.8	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Per share data (₹)					
EPS	10.9	5.9	2.8	9.6	
Cash EPS	19.8	17.4	15.7	22.9	
BV	65.0	69.3	68.8	77.4	
DPS	1.2	0.5	0.4	1.0	
Cash Per Share (Incl Invst)	4.2	12.5	14.2	15.1	
Operating Ratios (%)					
EBITDA Margin	12.3	11.3	10.0	12.3	
PAT Margin	4.8	2.8	1.4	4.0	
Inventory days	34.7	37.1	35.0	35.0	
Debtor days	55.6	48.5	50.0	50.0	
Creditor days	49.3	64.3	60.0	60.0	
Return Ratios (%)					
RoE	19.0	10.3	5.1	13.6	
RoCE	16.6	10.6	6.6	12.7	
RoIC	17.5	12.1	6.6	13.6	
Valuation Ratios (x)					
P/E	25.2	46.6	97.4	28.6	
EV / EBITDA	11.3	13.0	14.7	10.0	
EV / Net Sales	1.4	1.5	1.5	1.2	
Market Cap / Sales	1.2	1.3	1.3	1.1	
Price to Book Value	4.2	4.0	4.0	3.6	
Solvency Ratios					
Debt/EBITDA	1.5	1.9	2.6	1.6	
Debt/Equity	0.6	0.7	0.8	0.6	
Current Ratio	1.7	1.2	1.2	1.3	
Quick Ratio	1.2	0.7	0.8	0.9	

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Apollo Tyre (APOTYR)	110	100	Hold	6,292	8.3	2.4	7.6	13.2	46.3	14.4	6.3	6.0	4.7	4.8	3.5	6.1	4.8	1.2	4.3
Ashok Leyland (ASHLEY)	48	58	Hold	14,050	0.8	0.1	2.1	58.8	718.1	23.4	13.7	19.6	9.8	5.6	2.2	8.6	4.7	0.3	8.0
Bajaj Auto (BAAUTO)	2,842	2,840	Hold	82,239	176.3	134.9	162.1	16.1	21.1	17.5	13.1	16.2	12.5	23.8	23.2	25.1	25.6	17.7	19.1
Bharat Forge (BHAFOR)	337	300	Hold	15,690	7.5	0.0	10.0	44.9	NM	33.7	16.4	30.3	15.1	7.7	2.2	8.2	7.8	0.0	8.6
Eicher Motors (EICMOT)	18,390	18,070	Hold	50,131	670.4	495.4	690.9	27.4	37.1	26.6	21.2	26.5	18.7	22.5	15.9	19.1	18.3	12.2	14.9
Escorts (ESCORT)	1,050	1,020	Buy	12,871	39.6	40.8	50.3	26.5	25.7	20.9	17.6	17.1	13.7	18.9	13.3	14.2	14.2	10.1	11.1
Exide Industries (EXIIND)	150	170	Hold	12,750	9.7	8.1	9.7	15.4	18.5	15.5	9.2	9.7	8.2	16.7	13.8	15.2	13.4	10.3	11.4
Hero Moto (HERHON)	2,550	2,500	Hold	50,924	181.9	109.8	147.6	14.0	23.2	17.3	11.4	15.0	10.9	26.5	18.7	23.2	22.7	14.5	17.9
M&M (MAHMAH)	500	600	Buy	62,160	10.7	28.4	39.7	46.7	17.6	12.6	10.1	10.8	7.9	13.0	11.1	14.2	6.4	9.5	12.0
Maruti Suzuki (MARUTI)	5,800	4,650	Reduce	1,75,206	187.1	138.4	194.4	31.0	41.9	29.8	19.2	22.7	16.2	7.4	4.8	7.9	11.7	8.2	10.6
Minda Industries (MININD)	275	320	Buy	7,211	5.9	2.8	9.6	46.6	97.4	28.6	13.0	14.7	10.0	10.6	6.6	12.7	10.3	5.1	13.6
Tata Motors (TATMOT)	102	90	Hold	37,281	-32.8	-27.4	2.4	NM	NM	42.4	4.5	6.9	3.8	3.0	-0.1	7.2	-4.3	-12.3	8.5

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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