

Firmly placed, recent sharp run up limits upside...

Minda Industries (MIL) reported a soft Q1FY21 performance. Consolidated revenues were at ₹ 417 crore, down 71% YoY (4-W:2-W at 53:47; OEM: aftermarket at 84:16). Indian and global operations were impacted by lockdowns in the Covid impacted quarter. Consolidated loss at EBITDA level in Q1FY21 was at ₹ 71.5 crore. Operating loss tracked negative operating leverage, with both employee costs and other expenses rising steeply on percentage of sales basis. Gross margins expanded 200 bps QoQ. Reported consolidated loss after tax for the quarter was at ₹ 118.3 crore. Profitability was supported by lower interest & depreciation outgo.

Profitability growth set to outpace topline growth

Switches, lighting, acoustics formed 37%, 23%, 12% of consolidated MIL revenues in FY20, respectively, while light metal technology (LMT) (includes alloy wheels) and others (includes sensors, controllers) comprised 14% each. Post incorporation of Delvis, Harita Seating (HSS), we expect inorganic route, upcoming 2-W alloy plant to be topline growth drivers at the company in the medium term. Continued thrust on increasing kit value, offerings in emerging opportunities (air bags, 4-W alloy wheels, LED lighting, vehicle electronics) are expected to help post faster growth in bottomline (via higher ASPs and margins), with cost efforts and lower interest outgo post debt reduction also seen acting as tailwinds. We expect 10% and 35.6% CAGR growth in net sales and PAT (albeit low base), respectively, in FY20-22E.

Q1FY21 conference call – Key highlights & takeaways

MIL said –(1) It operated at ~70% pre Covid levels in July and is currently operating at ~80% in August, with rural-led demand recovery (2-W, tractors) seen continuing; (2) August production levels – Europe 85%, Mexico 75%, Asean 60%; (3) 2-W alloy wheel plant to be commissioned by September 2020 (full ramp up by mid next year), (4) large part of rights issue proceeds to be used to retire debt (marginally down QoQ) & is expected to be EPS accretive (5) Expect ~₹ 100 crore incremental sensors revenues in FY22E, (6) Delvis normal annual sales run rate is ~ ₹ 250 crore; (7) Steep drop in LMT division due to larger PV decline, downtrading in small cars, (8) MIL is looking to reduce power, rent costs; & (9) LED content in 2-W, 4-W at 35%, 25-27%, respectively, in FY20 and is set to increase, going forward.

Valuation & Outlook

Post the sharp stock price run up since our last update, we feel there is limited room for further upside currently. We downgrade MIL to **HOLD**, valuing it at ₹ 370 i.e. 14x EV/EBITDA on FY22E. Investors willing to take fresh exposure to MIL are advised to do so through Harita Seating Systems (HSS; increasing visibility of merger in next six months). Effective buying price given the swap ratio (152 MIL shares for every 100 shares held in HSS) comes to ~₹ 275 - steep 20% discount to current MIL's current market price.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4,471	5,908	5,465	5,475	6,610	10.0%
EBITDA	534	725	619	535	810	14.4%
EBITDA Margins (%)	11.9	12.3	11.3	9.8	12.3	
Net Profit	310	286	155	80	285	35.6%
EPS (₹)	11.8	10.9	5.9	2.8	10.0	30.4%
P/E	30.4	33.0	60.9	127.9	35.9	
RoNW (%)	21.3	19.0	10.3	4.0	13.0	
RoCE (%)	17.8	16.6	10.2	6.3	12.7	

Source: ICICI Direct Research, Company



Particulars	Amount
Market capitalisation (₹ crore)	9,439.2
Total Debt (FY 20, ₹ crore)	1,292.2
Cash & Inv. (FY 20, ₹ crore)	327.8
EV (₹ crore)	10,403.6
52 week H/L (₹)	424 / 208
Equity capital (₹ crore)	52.4
Face value (₹)	2.0

Price chart



Key Highlights

- In Q1FY21, topline fell 71% YoY amid sharp drop in OEM volumes
- MIL posted loss at EBITDA, PAT level tracking negative operating leverage
- Inorganic acquisitions, upcoming 2-W alloy plant seen driving topline growth in FY20-22E. Bottomline growth (albeit on low base) to be higher amid increasing kit value, margins
- Sharp stock price rally limits further upside from current levels. Downgrade from BUY to HOLD with revised target price of ₹ 370 i.e. 14x EV/EBITDA on FY22E numbers

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Exhibit 1: Variance analysis

₹ crore	Q1FY21	Q1FY21E	Q1FY20	YoY%	Q4FY20	QoQ%	Comments
Total Operating Income	417.1	457.1	1,439.8	-71.0	1,339.0	-68.8	Topline came in lower than our estimates at ₹417 crore
Raw Material Expenses	241.7	269.7	872.2	-72.3	801.9	-69.9	Rm to sales looks optically lower at ~58% of sales vs. the usual trend of ~60% of sales due to higher share of subsidiary revenues i.e. Delvis that is into engineering services. The trend is expected to normalise, going forward
Employee Expenses	166.3	182.8	215.1	-22.7	214.4	-22.4	
Other Expenses	80.6	68.6	180.3	-55.3	200.7	-59.9	
EBITDA	-71.5	-64.0	172.2	-141.5	122.0	-158.6	EBITDA for the quarter came in worse off tracking perils of negative operating leverage despite savings in RM costs
EBITDA Margin (%)	-17.1	-14.0	12.0	-2910 bps	9.1	-2625 bps	
Depreciation	68.2	88.3	71.2	-4.2	81.7	-16.5	Depreciation came in lower than our estimates
Interest	19.6	29.6	23.8	-17.8	21.0	-6.7	Interest costs also came in lower tracking better yield management at the company
Other Income	3.7	9.0	6.9	-46.1	16.0	-76.6	
PBT (before exceptional)	-155.6	-173.0	84.1	-284.9	35.3	-541.0	PBT came in marginally ahead of estimates but still in high negative territory
Exceptional items	0.0	0.0	0.0		8.9		
Total Tax	-36.8	-48.4	27.7	-233.0	13.3	-377.6	
Reported PAT	-118.3	-124.6	53.5	-321.3	7.3	-1,718.7	PAT came in marginally ahead of estimates tracking lower depreciation and interest charge to the P&L

Source: Company, ICICI Direct Research

Exhibit 2: Changes in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,654	5,475	-3.2	6,595	6,610	0.2	Marginally tweak estimates. We expect topline to grow at a CAGR of 10% over FY20-22E amid mix of inorganic and organic growth
EBITDA	564	535	-5.2	808	810	0.2	
EBITDA Margin (%)	10.0	9.8	-21 bps	12.3	12.3	0 bps	Broadly maintain margin estimates for FY21-22E
PAT	77	80	3.7	264	285	7.8	Lower depreciation and interest charge leads to single digit upgrade in PAT estimates for FY21-22E
EPS (₹)	2.8	2.8	0.5	9.6	10.0	4.6	EPS estimates change is different vs. PAT estimates primary tracking incorporating rights issue in FY21E

Source: Company, ICICI Direct Research

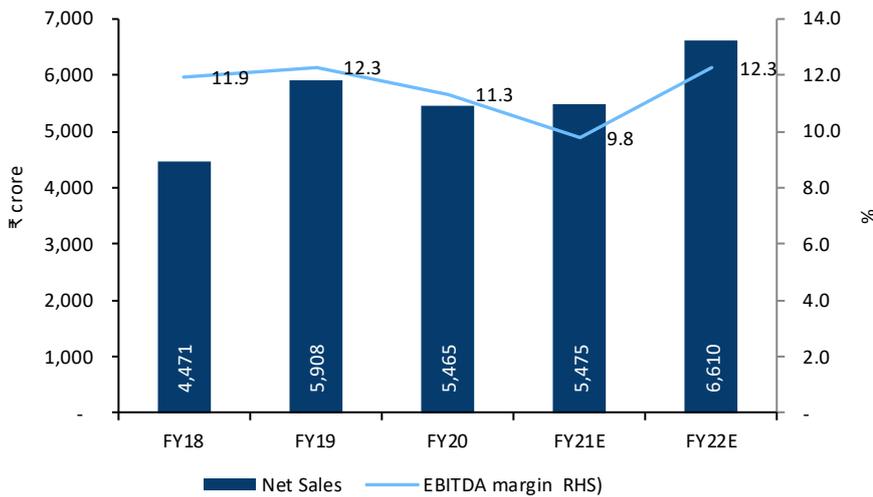
Exhibit 3: Assumptions

₹ crore	Current					Earlier		Comments
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E	
Switches	1,475	2,237	2,014	1,712	2,054	1,712	1,969	Broadly maintain estimates for FY21E while upgrading estimates for FY22E tracking new order wins at the company. On overall basis, we expect Light Metal Technologies (LMT) to be the real organic growth driver at Minda Industries with new 2-W alloy wheel plant getting commissioned in upcoming September 2020 with full ramp up expected by middle of next year
Lighting	1,159	1,293	1,223	1,040	1,247	1,040	1,195	
Acoustics	671	717	653	555	638	555	638	
LMT	585	908	781	703	914	742	965	
Others	581	754	795	1,466	1,756	1,606	1,828	

Source: ICICI Direct Research

Financial story in charts

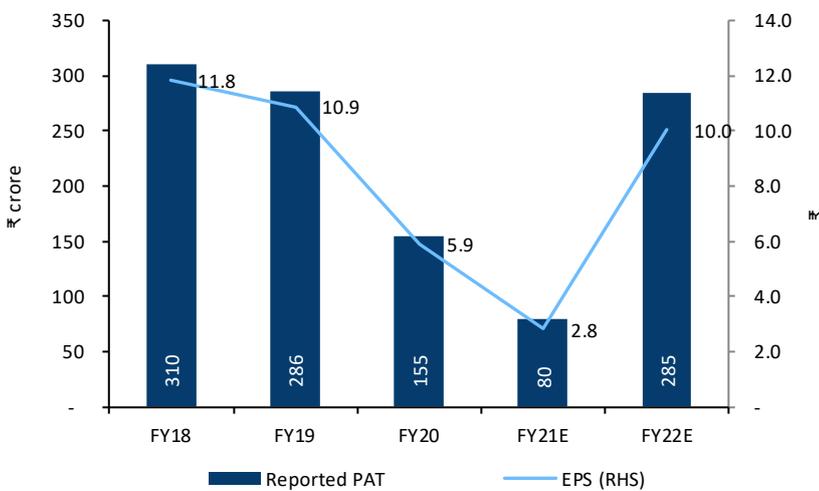
Exhibit 4: Topline and margin trend



We expect consolidated sales to grow at 10% CAGR over FY20-22E to ₹ 6,610 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

Source: Company, ICICI Direct Research

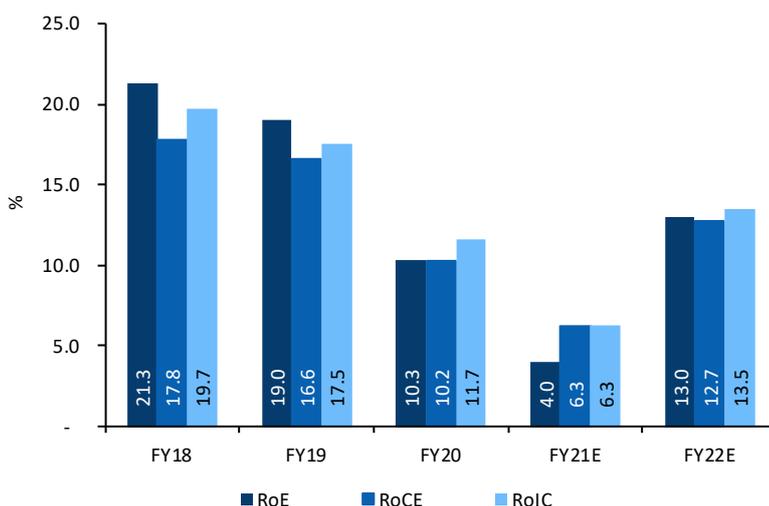
Exhibit 5: Profitability and depreciation trend



We expect consolidated PAT to grow at 35.6% CAGR over FY20-22E to ₹ 285 crore

Source: Company, ICICI Direct Research

Exhibit 6: Trend in return ratios



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

Source: Company, ICICI Direct Research

Exhibit 7: Order wins

Segment	Product	Comment
Switches	2-W switches	Nominated for oil temperature sensors (Japanese 2-W OEM)
	4-W switches	Roof top mounted mounted switches (Japanese OEM)
Lighting		Delvis technology-backed order wins and pipeline in India
	LED lighting	1 new headlamp order, 2 new tail lamp order
Acoustics	Domestic	Nominated for 0.3 million horns by large Korean OEM
	International	Received orders from Ford for electronic horns
LMT	Die casting	Acquired large Korean OEM for LPDC wheel (new model); supplies to start by Diwali next year - ~75,000 wheels a year
	2-W alloy wheel	To be commissioned by September 2020; full ramp up mid next year
Others		Smart plug for TVS i Qube

Source: Company, ICICI Direct Research

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	30.4	18.5	21.3	17.8
FY 19	5,908	32.2	10.9	(7.9)	33.0	14.4	19.0	16.6
FY 20	5,465	(7.5)	5.9	(45.8)	60.9	16.8	10.3	10.2
FY 21E	5,475	0.2	2.8	(52.3)	127.9	19.5	4.0	6.3
FY 22E	6,610	20.7	10.0	256.7	35.9	12.6	13.0	12.7

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	70.8	70.8	70.8	70.8	70.8
FII	11.3	11.5	11.3	10.9	10.3
DII	4.8	5.3	5.8	6.6	7.5
Others	13.1	12.5	12.2	11.7	11.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	5908.1	5465.2	5475.2	6609.9
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	5,908.1	5,465.2	5,475.2	6,609.9
Growth (%)	32.2	-7.5	0.2	20.7
Raw Material Expenses	3,622.5	3,284.2	3,310.9	4,065.1
Employee Expenses	791.3	846.8	860.1	941.9
Other Operating Expense	769.1	715.1	769.6	793.2
Total Operating Expenditure	5,182.9	4,846.1	4,940.6	5,800.2
EBITDA	725.2	619.1	534.6	809.7
Growth (%)	35.8	-14.6	-13.7	51.5
Depreciation	234.4	301.9	328.5	347.0
Interest	63.2	90.2	96.9	81.9
Other Income	27.0	39.3	31.7	31.3
PBT	454.7	266.2	140.9	412.1
Others	35.0	33.9	14.6	12.0
Total Tax	134.1	77.5	46.5	115.4
PAT	285.6	154.9	79.8	284.7
Growth (%)	-7.9	-45.8	-48.5	256.7
EPS (₹)	10.9	5.9	2.8	10.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	285.6	154.9	79.8	284.7
Add: Depreciation	234.4	301.9	328.5	347.0
(Inc)/dec in Current Assets	-290.3	175.9	6.1	-323.7
Inc/(dec) in CL and Provisions	0.4	252.7	-97.3	233.2
Others	63.2	90.2	96.9	81.9
CF from operating activities	293.2	975.6	414.0	623.1
(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	3.4	24.0
CF from investing activities	-778.6	-835.4	-571.6	-301.0
Issue/(Buy back) of Equity	35.0	0.0	4.3	0.0
Inc/(dec) in loan funds	472.2	211.1	0.0	-200.0
Interest and Dividend outgo	-94.0	-102.8	-108.3	-110.3
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	22.6	-30.7	240.8	0.0
CF from financing activities	435.9	77.6	136.8	-310.3
Net Cash flow	-49.5	217.8	-20.8	11.8
Opening Cash	159.5	110.0	327.8	307.1
Closing Cash	110.0	327.8	307.1	318.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	52.4	52.4	56.7	56.7
Reserve and Surplus	1,651.7	1,763.3	2,072.6	2,328.9
Total Shareholders funds	1,704.1	1,815.7	2,129.3	2,385.7
Total Debt	1,081.2	1,292.2	1,292.2	1,092.2
Deferred Tax Liability	0.6	13.5	13.5	13.5
Minority Interest / Others	342.3	358.0	361.4	385.4
Total Liabilities	3,128.2	3,479.5	3,796.5	3,876.8
Assets				
Gross Block	2,237.9	2,842.1	3,629.1	3,979.1
Less: Acc Depreciation	523.0	825.0	1,153.5	1,500.5
Net Block	1,714.9	2,017.1	2,475.7	2,478.6
Capital WIP	131.5	337.1	100.0	50.0
Total Fixed Assets	1,846.4	2,354.2	2,575.7	2,528.6
Investments & Goodwill	530.2	584.5	609.5	634.5
Inventory	561.0	555.3	525.0	633.8
Debtors	899.2	726.4	750.0	905.5
Loans and Advances	56.3	61.6	61.7	74.5
Other Current Assets	227.6	224.9	225.3	272.0
Cash	110.0	327.8	307.1	318.8
Total Current Assets	1,854.1	1,895.9	1,869.0	2,204.5
Current Liabilities	981.2	1,205.2	1,117.6	1,321.8
Provisions	121.2	149.9	140.1	169.1
Current Liabilities & Prov	1,102.4	1,355.1	1,257.7	1,490.9
Net Current Assets	751.7	540.8	611.3	713.7
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	3,128.2	3,479.5	3,796.5	3,876.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	10.9	5.9	2.8	10.0
Cash EPS	19.8	17.4	14.4	22.3
BV	65.0	69.3	75.1	84.1
DPS	1.2	0.5	0.4	1.0
Cash Per Share (Incl Invst)	4.2	12.5	10.8	11.2
Operating Ratios (%)				
EBITDA Margin	12.3	11.3	9.8	12.3
PAT Margin	4.8	2.8	1.5	4.3
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	4.0	13.0
RoCE	16.6	10.2	6.3	12.7
RoIC	17.5	11.7	6.3	13.5
Valuation Ratios (x)				
P/E	33.0	60.9	127.9	35.9
EV / EBITDA	14.4	16.8	19.5	12.6
EV / Net Sales	1.8	1.9	1.9	1.5
Market Cap / Sales	1.6	1.7	1.7	1.4
Price to Book Value	5.5	5.2	4.8	4.3
Solvency Ratios				
Debt/EBITDA	1.5	2.1	2.4	1.3
Debt / E equity	0.6	0.7	0.6	0.5
Current Ratio	1.7	1.3	1.4	1.4
Quick Ratio	1.2	0.8	0.9	0.9

Source: Company, ICICI Direct Research

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

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	126	120	Hold	7,208	8.3	4.9	8.9	15.1	25.7	14.2	6.9	5.9	5.0	4.7	4.7	6.6	4.8	2.5	4.9
Ashok Leyland (ASHLEY)	70	65	Hold	20,490	0.8	0.3	2.5	85.8	276.3	28.5	19.2	24.0	12.4	4.4	2.3	9.2	4.7	1.0	9.3
Bajaj Auto (BAAUTO)	3,015	3,210	Hold	87,245	176.2	136.9	173.5	17.1	22.0	17.4	13.8	16.6	12.2	23.8	23.3	26.6	25.6	17.9	20.2
Bharat Forge (BHAFOR)	500	415	Hold	23,279	7.5	3.5	13.7	66.7	143.5	36.6	23.2	31.5	17.4	5.8	2.2	7.9	7.8	3.0	11.1
Eicher Motors (EICMOT)	2,222	2,470	Hold	60,572	67.0	46.6	71.3	33.1	47.7	31.2	24.8	31.1	21.3	17.2	11.4	15.3	18.3	11.6	15.4
Escorts (ESCORT)	1,124	1,300	Buy	13,778	39.6	46.1	54.5	28.4	24.4	20.6	19.0	16.0	13.4	18.9	15.0	15.2	14.2	11.2	11.8
Exide Industries (EXIIND)	171	180	Buy	14,535	9.7	6.3	8.9	11.8	18.0	12.9	10.5	13.0	10.1	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	2,990	3,235	Buy	59,710	181.9	118.0	161.8	16.4	25.3	18.5	13.5	16.3	11.7	21.2	15.3	20.2	22.7	15.4	19.1
M&M (MAHMAH)	610	700	Buy	75,835	10.7	27.9	38.2	57.0	21.9	16.0	12.5	12.9	9.7	12.9	10.8	13.8	6.4	9.2	11.6
Maruti Suzuki (MARUTI)	7,117	5,300	Reduce	2,14,990	187.1	124.9	203.4	38.0	57.0	35.0	24.7	33.8	20.8	7.4	3.5	8.2	11.7	7.4	11.1
Minda Industries (MININD)	360	370	Hold	9,439	5.9	2.8	10.0	60.9	127.9	35.9	16.8	19.5	12.6	10.2	6.3	12.7	10.3	4.0	13.0
Tata Motors (TATMOT)	125	115	Hold	45,688	-32.8	-24.6	7.4	NM	NM	16.8	4.9	5.1	3.4	1.4	1.1	6.8	-18.7	-16.5	4.8

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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