Minda Corporation

Buy

DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

On the recovery path

- Minda Corp reported better than expected numbers in 3Q. Revenue grew 36% YoY driven by strong aftermarket (+55% YoY) and export sales (+25% YoY). EBITDA grew 13% YoY with margin at 11% (+90bps QoQ/-231bps YoY), benefit of operating leverage was offset by high RM cost. Net profit grew 11% YoY suppressed by higher interest cost and lower other income.
- Mechatronics business grew 32% YoY supported by higher aftermarket and exports sales. However, margin contracted 250bps YoY to 13.8% led by weaker product mix and commodity inflation.
- Although Information & Connected Systems (wiring harness business) jumped 43% YoY in 3QFY21 supported by increase in content per vehicle for 2W due to BS VI, margin suppressed 170bps YoY to 7.1% to due to increase in copper prices and weaker mix.
- The management states that recovery in volume of 2W & Tractor, Die casting and aftermarket business will aid revenue and margin. 2&3W accounts for 54% and aftermarket 17% of overall revenue.
- We expect margin continue to be under pressure in Wiring harness business in near term to medium term due to high copper prices and adverse product mix.
- The Company has brought private equity investment through issue of 11.8mn preference share (~5% equity dilution) to Phi Capital Management at Rs 70/share (total worth upto Rs 830mn). As per the management, Phi Capital will help the company to take strategic decision making and scale business.
- Given the strong revenue growth in Wiring harness business and Mechatronics business, QoQ improvement in margin and sharp improvement in JV profitability, we change our rating from Reduce to BUY with target price Rs 125 (18xFY23E EPS).

Improving outlook for revenue

We expect revenue is poised to see strong growth driven by new order-wins, product launches , strong after-market and (cont..)

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	7,398	5,436	36.1	6,561	12.8
Total Expense	6,580	4,709	39.7	5,896	11.6
EBITDA	818	727	12.6	666	22.9
Depreciation	244	218	11.7	248	(1.7)
EBIT	574	508	13.0	418	37.5
Other Income	97	110	(12.1)	75	29.8
Interest	96	83	15.4	110	(12.4)
EBT	575	535	7.5	383	50.3
Tax	137	137	0.0	108	27.0
RPAT	495	446	11.0	258	91.6
APAT	495	446	11.0	258	91.6
			(bps)		(bps)
Gross Margin (%)	37.3	41.0	(365)	36.5	83
EBITDA Margin (%)	11.1	13.4	(231)	10.1	92
NPM (%)	6.7	8.2	(151)	3.9	275
Tax Rate (%)	23.8	25.6	(178)	28.2	(438)
EBIT Margin (%)	7.8	9.3	(158)	6.4	140

CMP	Rs 97
Target / Upside	Rs 125 / 29%
NIFTY	14,790

Scrip Details

Equity / FV	Rs 453mn / Rs 2
Market Cap	Rs 23bn
	USD 316mn
52-week High/Low	Rs 122/ 53
Avg. Volume (no)	12,19,030
Bloom Code	MDA IN

Price Performance	1M	3M	12M
Absolute (%)	7	47	0
Rel to NIFTY (%)	2	22	(26)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	68.1	64.7	64.7
MF/Banks/FIs	7.4	11.7	12.4
FIIs	6.9	6.7	6.7
Public / Others	17.6	16.9	16.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	30.4	16.7	14.0
EV/EBITDA	12.0	7.9	6.3
ROE (%)	7.2	11.5	12.2
RoACE (%)	8.1	13.5	14.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	21,745	26,103	29,145
EBITDA	1,904	2,828	3,274
PAT	758	1,377	1,648
EPS (Rs.)	3.2	5.8	6.9

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increase in content per vehicle for wiring harness business. The company has also ventures with global players in futuristic technologies including block-chain, artificial intelligence, sensors etc. preparing itself for the next leg of growth Despite sales increase, margins to see as BSVI benefits have not passed through yet, however costs have spike. It will take another two-three quarters to see the benefit flow through.

Aluminum die casting business – On a strong footing

The top three automotive turbocharger manufacturers globally are BorgWarner (market share ~35%), Honeywell (~35%) and Mitsubishi (~15%) – these players annually consume ~Rs 35bn of housing compressors, a key component of turbochargers. Now these players are in process of diversifying its sourcing for raw material and reducing their share from Chinese companies, this is going to drive the die casting business of Minda corp. Management is targeting a strong CAGR in die casting exports. We expect export revenues from the business to rise from Rs 950mn in FY20 to Rs 2bn in FY23. We also see strong growth in domestic business.

Winding up M KTSN to aid margin

The decision to close off its loss making KTSN business is structurally positive and we expect it to improve both margins and cash flow going ahead. This move would strengthen the profitability and BS of the parent company and expect to improve EBITDA by 250-300bps and RoCE by 300 bps in medium to long term.

Exhibit 1: Change in estimates

Rs. Mn	FY22E			FY23E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Net sales	26,103	22,855	14.2	29,145	25,504	14.3
EBITDA	2,828	2,340	20.8	3,274	2,752	19.0
EBITDA margin (%)	10.8	10.2	59.3 (bps)	11.2	10.8	44.3 (bps)
APAT	1,377	1,034	33.2	1,648	1,309	25.8
EPS	5.8	4.3	33.2	6.9	5.5	25.8

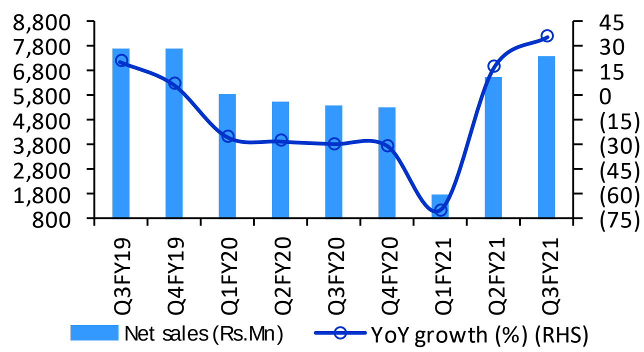
Source: DART, Company

Exhibit 2: Assumption table

Financial Year (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Mechatronics & After market	12,358	12,615	12,096	12,223	14,315	15,573
Growth% (YoY)	43	2	(4)	1	17	9
Information & Connected system	8,458	12,090	10,127	9,522	11,788	13,572
Growth% (YoY)	(19)	43	(16)	(6)	24	15
Plastics & Interior*	5,533	6,215	5,907	-	-	-
Growth% (YoY)	79	12	(5)	NA	NA	NA
Total Segment Revenue	**26,350**	**30,920**	**28,131**	**21,745**	**26,103**	**29,145**

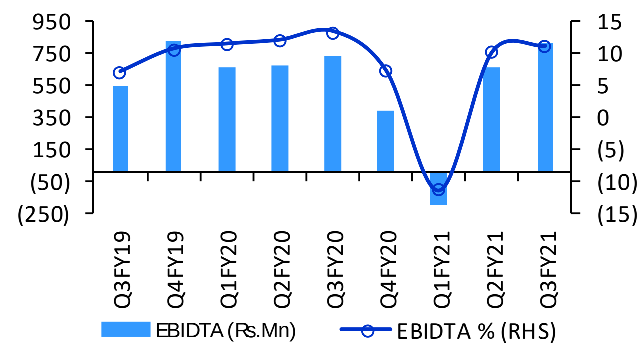
Source: DART, Company, Note: MKTSN (Company subsidiary) has filed for Bankruptcy in FY20 and MDA made a provision for the same.*

Exhibit 3: Revenue grew 36% YoY



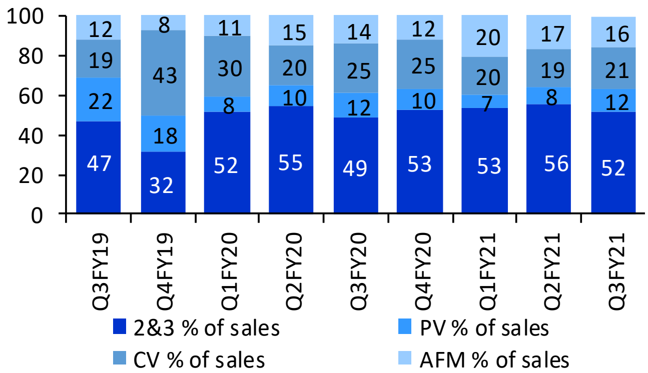
Source: Company, DART

Exhibit 4: EBIDTA margin improved QoQ



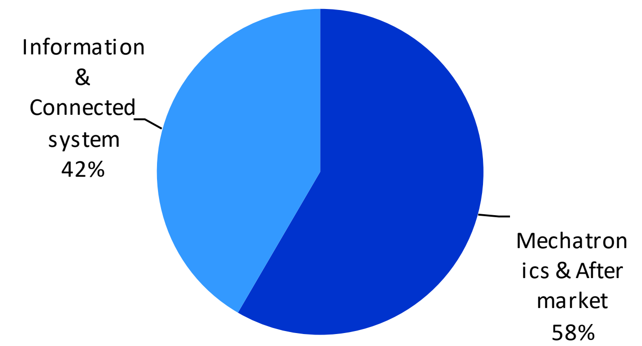
Source: Company, DART

Exhibit 5: End market revenue break up (%)



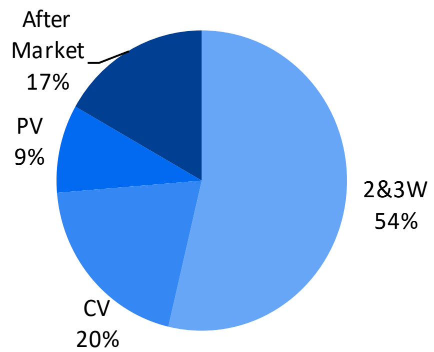
Source: Company, DART

Exhibit 6: Segment revenue (%) 9MFY21 (Excluding MKSTN)



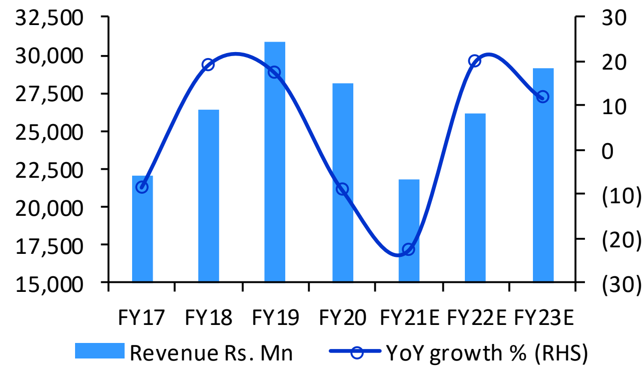
Source: Company, DART

Exhibit 7: End market revenue break up (%) 9MFY21 (Excluding MKSTN)



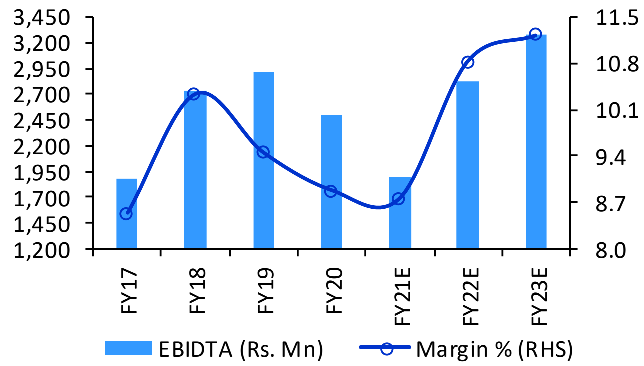
Source: Company, DART

Exhibit 8: Sharper recovery expected from FY22



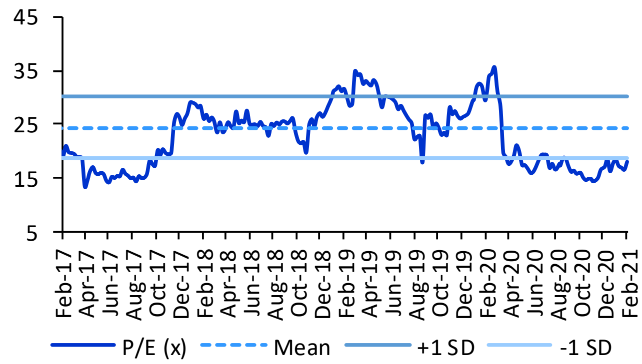
Source: Company, DART

Exhibit 9: Margin to improve from FY22E



Source: Company, DART

Exhibit 10: 1 yr fwd PE/Band



Source: Company, DART

Conference Call highlights

- Revenue growth in Q3 was largely driven by increase in wiring harness content in 2W category, growth in aftermarket (55% YoY) and Export sales (25% YoY). Despite supply constraints, company has supported all customers while ramping up of production during the quarter.
- On sequential basis, EBIDTA margin improved by 90bps to 11.1% due to better cost control measures. Impact of RM indexation on margin was 100bps. Company is in discussion with OEMs to shift from monthly to quarterly indexation.
- Information & Connected Systems revenue grew 43% YoY due to increase in content in 2Ws due to BS VI implementation. Margin for the segment contracted to 7.1% vs 8.8% last year due to increase in RM cost, adverse product mix and low labor productivity.
- Mechatronics and Aftermarket grew by 32% YoY to Rs. 4.3bn due to higher after market and export sales. However, margin contracted by 250bps YoY to 13.8% due to RM Indexation & higher cost of operation due to Covid-19.
- After market growth was largely driven by focused approach towards target market, by maintain good connect with customer, addition of newer geographies in export market (like LATM and Africa). Expect export to see strong growth ahead (currently 98% AM consist of domestic revenue).
- In 3Q Die casting revenue grew by 28% YoY/10% QoQ. For 9MFY21 revenue de-grew by 6%, to Rs. 2.75bn (new order worth Rs.1bn from existing customer). Expect die casting revenue to grow by 20-25% going forward.
- JV performance improved during the quarter due to improvement in performance of Minda Stoneridge and Minda furukawa.
- During the quarter company won order worth Rs.16.4bn (Replacement 70%, new business 30%) out of which Rs 2.24bn is attributed to export segment. Wire harness order has life cycle of 9 months and die casting is 15-18-month.
- Under PLI, company is qualified for the scheme and waiting for the final print of the same.
- localization of wire harness will reduce the cost the company. Expect improvement in wiring harness margin from Q3FY22.
- Depreciation cost increased to due expansion of die casting production. Capex for the 9MFY21 is Rs.900mn towards expansion, maintenance capex and R&D. For FY22 capex would be 4-5% of revenue.
- Utilization level in Die casting (85%), locking system (2W – 75-80%), Wiring harness (2W & Tractor- 80-85%) and CV- 60%. Company is witnessing sign of improvement in CV segment.
- Company started production of intelligent transport system during the quarter which is used for public transport.
- In 9MFY21 Revenue contribution from 2&3W is- 53.7%, After market-16.8%, CV-20%, PV 9.5%.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**28,131**	**21,745**	**26,103**	**29,145**
Total Expense	**25,632**	**19,840**	**23,276**	**25,871**
COGS	16,991	13,453	15,706	17,390
Employees Cost	5,027	3,669	4,177	4,634
Other expenses	3,614	2,718	3,393	3,847
EBIDTA	**2,499**	**1,904**	**2,828**	**3,274**
Depreciation	1,179	970	1,103	1,229
EBIT	**1,321**	**935**	**1,725**	**2,045**
Interest	499	389	383	379
Other Income	443	370	375	395
Exc. / E.O. items	(2,933)	0	0	0
EBT	**(1,669)**	**916**	**1,717**	**2,061**
Tax	454	238	446	536
RPAT	(1,998)	758	1,377	1,648
Minority Interest	0	0	0	0
Profit/Loss share of associates	**125**	**80**	**107**	**123**
APAT	**935**	**758**	**1,377**	**1,648**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	453	453	453	453
Minority Interest	0	0	0	0
Reserves & Surplus	9,298	10,863	12,241	13,895
Net Worth	**9,751**	**11,316**	**12,694**	**14,348**
Total Debt	5,155	4,205	3,706	3,208
Net Deferred Tax Liability	333	333	333	333
Total Capital Employed	**15,240**	**15,855**	**16,734**	**17,890**
Applications of Funds				
Net Block	**5,402**	**5,748**	**5,778**	**5,675**
CWIP	285	585	585	585
Investments	2,342	2,486	2,674	2,916
Current Assets, Loans & Advances	**15,256**	**12,532**	**14,247**	**16,028**
Inventories	3,949	3,038	3,647	4,072
Receivables	3,898	3,277	3,933	4,392
Cash and Bank Balances	4,724	4,457	4,507	5,489
Loans and Advances	14	97	44	133
Other Current Assets	2,671	1,663	2,116	1,941
Less: Current Liabilities & Provisions	**8,044**	**5,495**	**6,550**	**7,313**
Payables	5,092	3,872	4,649	5,190
Other Current Liabilities	2,952	1,623	1,901	2,123
sub total				
Net Current Assets	7,212	7,037	7,697	8,714
Total Assets	**15,240**	**15,855**	**16,734**	**17,890**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	39.6	38.1	39.8	40.3
EBIDTA Margin	8.9	8.8	10.8	11.2
EBIT Margin	4.7	4.3	6.6	7.0
Tax rate	(27.2)	26.0	26.0	26.0
Net Profit Margin	3.3	3.5	5.3	5.7
(B) As Percentage of Net Sales (%)				
COGS	60.4	61.9	60.2	59.7
Employee	17.9	16.9	16.0	15.9
Other	12.8	12.5	13.0	13.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.4	0.3	0.2
Interest Coverage	2.6	2.4	4.5	5.4
Inventory days	51	51	51	51
Debtors days	51	55	55	55
Average Cost of Debt	9.5	8.3	9.7	11.0
Payable days	66	65	65	65
Working Capital days	36	41	41	41
FA T/O	5.2	3.8	4.5	5.1
(D) Measures of Investment				
AEPS (Rs)	3.9	3.2	5.8	6.9
CEPS (Rs)	8.9	7.3	10.4	12.1
DPS (Rs)	0.4	0.3	0.5	0.6
Dividend Payout (%)	8.9	8.5	8.5	8.5
BVPS (Rs)	41.0	47.5	53.3	60.3
RoANW (%)	8.6	7.2	11.5	12.2
RoACE (%)	11.0	8.1	13.5	14.5
RoAIC (%)	10.7	8.5	14.6	16.6
(E) Valuation Ratios				
CMP (Rs)	97	97	97	97
P/E	24.7	30.4	16.7	14.0
Mcap (Rs Mn)	23,049	23,049	23,049	23,049
MCap/ Sales	0.8	1.1	0.9	0.8
EV	23,481	22,797	22,248	20,768
EV/Sales	0.8	1.0	0.9	0.7
EV/EBITDA	9.4	12.0	7.9	6.3
P/BV	2.4	2.0	1.8	1.6
Dividend Yield (%)	0.4	0.3	0.5	0.6
(F) Growth Rate (%)				
Revenue	(9.0)	(22.7)	20.0	11.7
EBITDA	(14.5)	(23.8)	48.5	15.8
EBIT	(35.3)	(29.2)	84.6	18.5
PBT	(174.0)	(154.9)	87.5	20.1
APAT	(44.8)	(19.0)	81.8	19.7
EPS	(44.8)	(19.0)	81.8	19.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,504	1,658	2,124	3,088
CFI	(1,371)	(1,278)	(977)	(977)
CFF	(2,490)	(526)	(1,074)	(1,112)
FCFF	3,042	380	1,147	2,111
Opening Cash	3,530	4,724	4,457	4,507
Closing Cash	4,724	4,457	4,507	5,489

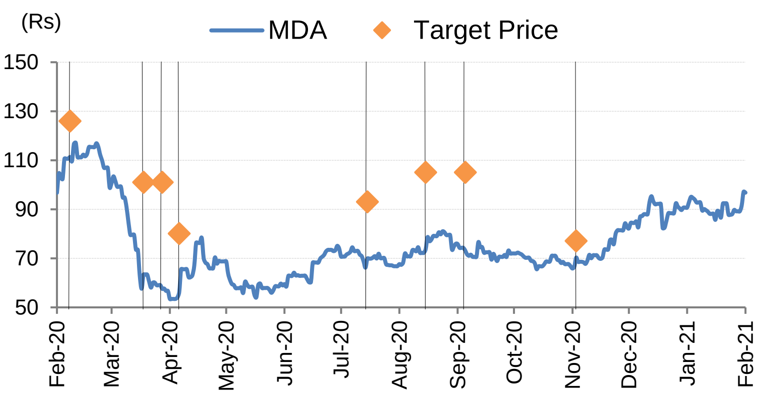
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	BUY	126	111
Mar-20	Buy	101	63
Mar-20	Buy	101	58
Apr-20	Buy	80	56
Jul-20	BUY	93	70
Aug-20	BUY	105	74
Sep-20	BUY	105	73
Nov-20	Reduce	77	70

*Price as on recommendation date

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