

Investment thesis playing out on expected lines...

Minda Corporation (MCL) reported strong Q3FY21 results. Consolidated net sales rose 36% YoY to ₹ 740 crore (like-to-like basis) – far outpacing the growth observed in the domestic OEM space. Blended operating margins rose 100 bps QoQ to 11.1% (110 bps increase in mechatronics division to 13.8%; 40 bps increase in information connected systems division to 7.1%) amid 80 bps QoQ gross margin expansion and 80 bps savings in other expenses on percentage of sales basis. Consequent consolidated PAT was up 19% YoY to ₹ 49.5 crore.

CV recovery further improves topline outlook

The domestic OEM space has recovered well post Covid, with early revival in rural facing pockets like tractors and motorcycles later being caught up by catch-up in urban segments like scooters and UVs. Over the past few months, one of the major laggard segments, CV, has also started to show signs of promise, on the back of a pick-up in demand from key sectors like mining, road building and construction. In our view, the industry has surpassed the usual cyclical bottom and is poised well for strong growth in coming years. This bodes well for MCL, which derived ~23% of FY20 sales (continued operations) from the space. Its wiring harness division, especially, should benefit from larger dependence on this segment (~40% of sales). With other major auto segments performing reasonably well already (2-W – 53% of FY20 sales, PV – 10% of FY20 sales), the overall topline picture at MCL appears encouraging over the medium term. On a long-term basis, the company is seen continuing to gain from increased content per vehicle (2-2.5x in 2-W wiring harness under BS-VI) and increased contribution from further value additive content such as smart keys. We build 18.1% FY21E-23E net sales CAGR at MCL to ₹ 3140 crore.

Margin drivers in place for move to higher trajectory

Ongoing premiumisation is also expected to lead to structural improvement in margin trajectory at MCL down the line. Once near-term squeeze on gross margins brought about by sharp increase in prices of raw materials subsides, the company is seen moving to a higher margin plane on the back of increased operational efficiencies, cost controls and removal of profitability overhang due to hive-off of Minda KTSN (the management expects the restructuring to add ~2% to margins and ~5% to RoCE in time). We build 10.5%, 11% margins for FY22E & FY23E, respectively.

Valuation & Outlook

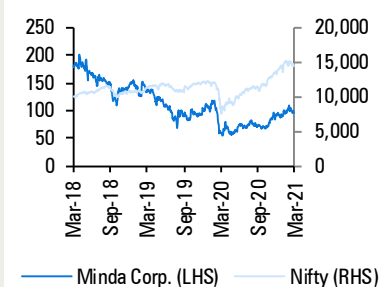
FY21E-23E PAT CAGR at MCL is seen at ~62% (albeit on a low base). Broad-based positivity across served segments domestically, new order wins along with structural margin tailwinds help us maintain **BUY** on MCL. We value it at ₹ 120, 15x P/E FY23E EPS (previous target price ₹ 105) and remain enthused by its long term vision to clock ~12% margins and ~20%+ RoIC.



Particulars

Particulars	Amount
Market capitalisation (₹ crore)	2,264.3
Total Debt (FY20, ₹ crore)	529.5
Cash & Inv. (FY20, ₹ crore)	472.4
EV (₹ crore)	2,321.4
52 week H/L (₹)	111 / 53
Equity capital (₹ crore)	47.7
Face value (₹)	2.0

Price Performance



Key highlights

- Q3FY21 revenues up 36% YoY, far ahead of underlying OEM performance. Margins up 100 bps QoQ to 11.1%
- Recovery in CV space augments topline prospects. Operating leverage benefits, value additive content to further improve margin

Risks to our call

- Delay in margin recovery
- Unrelated inorganic acquisition

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

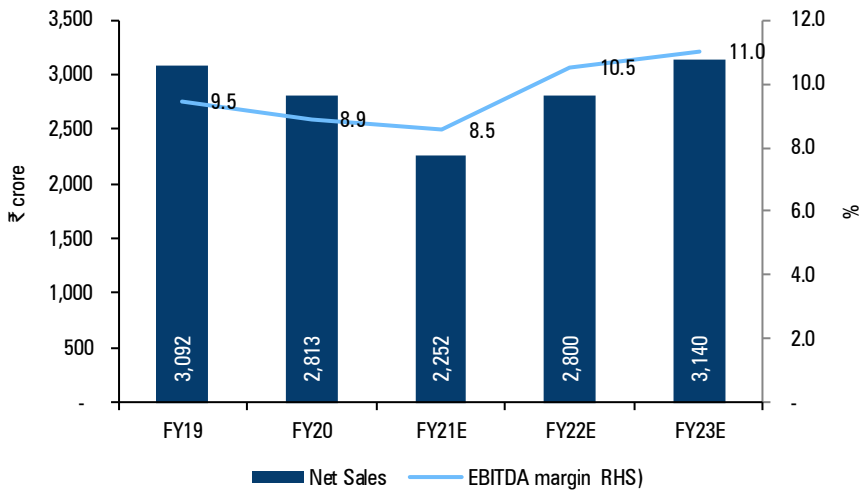
Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	3,092	2,813	2,252	2,800	3,140	18.1%
EBITDA	292	250	192	294	345	33.9%
EBITDA Margins (%)	9.5	8.9	8.5	10.5	11.0	
Net Profit	169	(200)	73	155	190	61.5%
EPS (₹)	7.5	(8.8)	3.1	6.5	8.0	
P/E	12.7	NM	31.1	14.6	11.9	
RoNW (%)	14.2	(20.5)	6.5	12.3	13.4	
RoCE (%)	10.8	8.7	6.1	11.0	12.3	

Source: Company, ICICI Direct Research

Financial story in charts

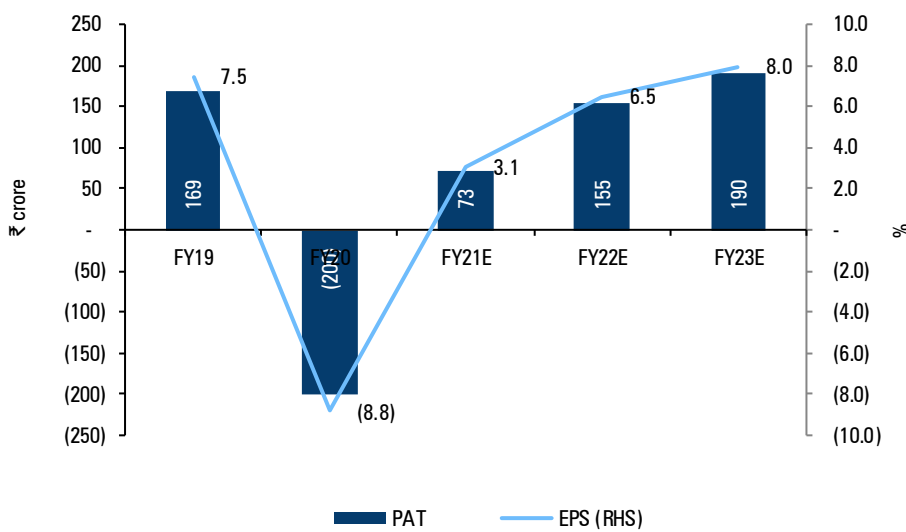
Exhibit 1: Sales and EBITDA margin trend



We expect sales to grow at a CAGR of 18.1% over FY21E-23E. EBITDA margins are slated to improve to 11% mark in that timeframe

Source: Company, ICICI Direct Research

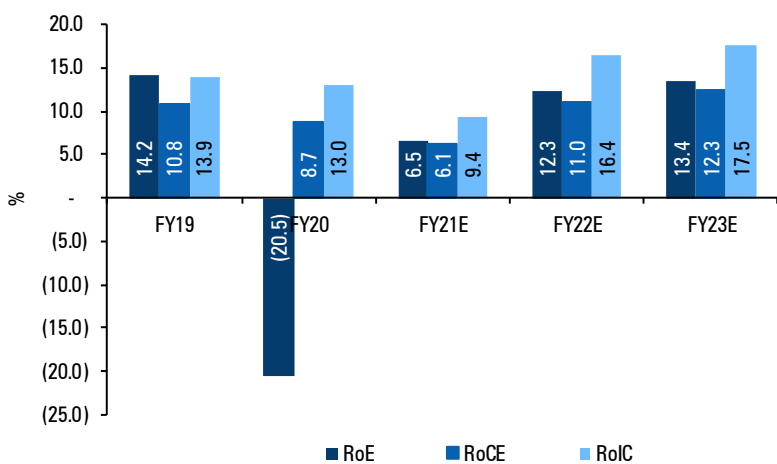
Exhibit 2: PAT & EPS trend



PAT is seen growing at a CAGR of ~62% over FY21-23E (albeit on a low base). EPS is seen at ₹6.5, ₹8 for FY22E, FY23E, respectively

Source: Company, ICICI Direct Research

Exhibit 3: Return ratios



Return ratios are expected to turn investment grade starting FY22E. RoIC are seen trending higher due to substantial cash on MCL's books (QIP money)

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	2813.1	2252.2	2799.7	3139.6
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2,813.1	2,252.2	2,799.7	3,139.6
Growth (%)	-9.0	-19.9	24.3	12.1
Raw Material Expenses	1,699.1	1,421.5	1,763.8	1,978.0
Employee Expenses	502.7	372.7	447.9	486.6
Other Operating Expense	361.4	265.4	294.0	329.7
Total Operating Expenditure	2,563.2	2,059.7	2,505.7	2,794.3
EBITDA	249.9	192.5	294.0	345.4
Growth (%)	-14.5	-23.0	52.7	17.5
Depreciation	117.9	95.7	105.0	114.6
Interest	49.9	34.5	31.5	30.8
Other Income	44.3	36.5	35.7	36.3
PBT	126.4	98.9	193.2	236.3
Excep. charge & P/L from Asso.	-280.8	0.2	10.5	13.0
Total Tax	45.4	26.3	48.7	59.5
PAT	-199.8	72.7	155.0	189.8
Growth (%)	NM	LP	113.1	22.4
EPS (₹)	-8.8	3.1	6.5	8.0

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-199.8	72.7	155.0	189.8
Add: Depreciation	117.9	95.7	105.0	114.6
(Inc)/dec in Current Assets	235.8	151.9	-172.3	-150.0
Inc/(dec) in CL and Provisions	167.2	-166.6	93.1	31.4
Others	5.6	-2.1	-4.2	-5.5
CF from operating activities	326.7	151.7	176.7	180.3
(Inc)/dec in Investments	164.3	16.7	35.7	26.3
(Inc)/dec in Fixed Assets	-235.7	-100.0	-112.0	-125.6
Others	79.8	-25.0	-15.0	-10.0
CF from investing activities	8.4	-108.3	-91.3	-109.3
Issue/(Buy back) of Equity	0.0	2.4	0.0	0.0
Inc/(dec) in loan funds	-145.5	-70.0	-10.0	-10.0
Interest and Dividend outgo	-69.8	-46.4	-49.3	-54.6
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-0.4	80.0	0.0	0.0
CF from financing activities	-215.7	-34.0	-59.3	-64.6
Net Cash flow	119.4	9.4	26.0	6.4
Opening Cash	353.0	472.4	481.8	507.9
Closing Cash	472.4	481.8	507.9	514.3

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	45.3	47.7	47.7	47.7
Reserve and Surplus	929.7	1,070.5	1,207.7	1,373.6
Total Shareholders funds	975.0	1,118.2	1,255.3	1,421.3
Total Debt	529.5	459.5	449.5	439.5
Deferred Tax Liability	4.8	4.8	4.8	4.8
Minority Interest / Others	91.6	66.6	51.6	41.6
Total Liabilities	1600.9	1,649.1	1,761.2	1,907.2
Assets				
Gross Block	1,046.3	1,124.7	1,246.7	1,382.3
Less: Acc Depreciation	324.2	419.9	524.9	639.5
Net Block	722.1	704.8	721.8	742.8
Capital WIP	28.4	50.0	40.0	30.0
Total Fixed Assets	750.5	754.8	761.8	772.8
Investments & Goodwill	217.2	237.0	237.0	247.0
Inventory	394.9	308.5	383.5	430.1
Debtors	389.8	339.4	421.9	516.1
Loans and Advances	6.4	5.1	6.4	7.1
Other Current Assets	69.4	55.6	69.1	77.5
Cash	472.4	481.8	507.9	514.3
Total Current Assets	1,332.9	1,190.4	1,388.7	1,545.0
Current Liabilities	612.1	514.9	600.9	630.5
Provisions	115.5	46.1	53.2	55.1
Current Liabilities & Prov	727.6	561.0	654.1	685.6
Net Current Assets	605.3	629.4	734.6	859.5
Others Assets	27.9	27.9	27.9	27.9
Application of Funds	1,600.9	1,649.1	1,761.2	1,907.2

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	-8.8	3.1	6.5	8.0
Cash EPS	-3.6	7.1	10.9	12.8
BV	43.0	46.9	52.7	59.6
DPS	0.4	0.5	0.8	1.0
Cash Per Share (Incl Invst)	20.9	21.1	21.7	21.8
Operating Ratios (%)				
EBITDA Margin	8.9	8.5	10.5	11.0
PAT Margin	-7.1	3.2	5.5	6.0
Inventory days	51.2	50.0	50.0	50.0
Debtor days	50.6	55.0	55.0	60.0
Creditor days	66.1	70.0	65.0	60.0
Return Ratios (%)				
RoE	-20.5	6.5	12.3	13.4
RoCE	8.7	6.1	11.0	12.3
RoIC	13.0	9.4	16.4	17.5
Valuation Ratios (x)				
P/E	NM	31.1	14.6	11.9
EV / EBITDA	9.3	11.5	7.5	6.3
EV / Net Sales	0.8	1.0	0.8	0.7
Market Cap / Sales	0.8	1.0	0.8	0.7
Price to Book Value	2.2	2.0	1.8	1.6
Solvency Ratios				
Debt/EBITDA	2.1	2.4	1.5	1.3
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	1.4	1.5	1.6	1.8
Quick Ratio	0.7	0.8	0.9	1.0

Source: Company, 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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets) and Jaimin Desai, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.