

## Premiumisation thesis intact...

**About the stock:** Minda Industries (MIL) is India's largest maker of automotive switches, horns, seats & PV alloy wheels and third largest automotive lighting player.

- FY21 segment mix – 4-W 53%, 2-W 47%; switches, lighting, castings, horns and seats comprised 28%, 22%, 12%, 10% and 10% of sales, respectively
- History of vast outperformance vs. user industries riding on growth in kit value, new client and product additions & inorganic acquisitions

**Q1FY22 Results:** The company posted subdued Q1FY22 results.

- Consolidated revenues at ₹ 1,603 crore were down 28.4% QoQ
- EBITDA margins declined 432 bps sequentially to 9.2%
- Consequent consolidated PAT was down 89% QoQ to ₹ 15.4 crore

**What should investors do?** MIL's share price has jumped >9x from ~₹ 75 levels in August 2016, thereby vastly outperforming Nifty Auto index in that time.

- We retain **BUY** rating amid healthy growth prospects, intact kit value focus

**Target Price and Valuation:** We value the company at a revised target price of ₹ 835 i.e. 38x P/E on average FY23E, FY24E EPS (previous target ₹ 725)

### Key triggers for future price performance:

- We build 17.2% FY21-24E net sales CAGR riding on OEM ramp up post Covid, focus on premiumisation (content per vehicle), new product launches
- Minimal EV risk to portfolio; actively working on EV-specific products
- Increasing share of new age products (sensors, alloy wheels)
- Mix, operating leverage to push margins, RoCE to 13.8%, 18% (FY24E)
- B/s strength to sustain with FY22E debt: equity placed at 0.3x

**Alternate Stock Idea:** Besides MIL, in our ancillary coverage we like Apollo Tyres.

- India CV revival beneficiary focused on debt reduction, higher return ratios
- BUY with target price of ₹ 275



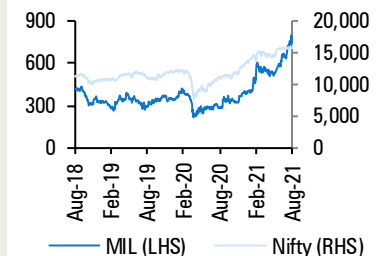
### Particulars

Particulars	Amount
Market capitalisation (₹ crore)	19,992
Total Debt (FY21, ₹ crore)	1,052
Cash & Inv. (FY21, ₹ crore)	240
EV (₹ crore)	20,805
52 week H/L (₹)	833 / 281
Equity capital (₹ crore)	54.4
Face value (₹)	2.0

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	70.9	70.9	70.9	69.8
FII	9.7	9.6	9.6	9.0
DII	9.9	10.2	10.5	10.9
Other	9.6	9.3	9.0	10.3

### Price Chart



### Recent event & key risks

- Acquisition of Uzbekistan-based lighting maker UZ Chasys
- **Key Risk:** (i) Slower than anticipated post Covid recovery, (ii) Further margin pressures imparted by high input costs

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	5,908.1	6,222.0	6,373.7	20.5%	7,706.0	9,037.6	10,251.9	17.2%
EBITDA	725.2	671.8	725.0	25.0%	889.3	1,220.1	1,409.6	24.8%
EBITDA Margins (%)	12.3	10.8	11.4		11.5	13.5	13.8	
Net Profit	285.6	155.2	206.6	13.3%	306.0	555.2	699.1	50.1%
EPS (₹)	10.9	5.9	7.6		10.7	19.4	24.5	
P/E	64.3	118.3	92.1		65.3	36.0	28.6	
RoNW (%)	19.0	8.3	9.2		9.5	14.8	15.9	
RoCE (%)	15.7	9.3	9.1		10.3	15.9	18.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: All round miss on estimates

- While the topline performance was lower than our estimates, it continued to be better than underlying OEM volume de-growth in Q1FY22
- Margin decline was steep despite 140 bps gross margin expansion due to sharp negative operating leverage impact
- Loss from JVs/associates for the quarter was at ₹ 5 crore

### Q1FY22 Earnings Conference Call highlights

- In Q1FY22, sensors and controllers combined revenues were at ₹ 50 crore. Contribution from blow moulding, Delvis, Isys and batteries were at ₹ 40 crore, ₹ 30 crore, ₹ 30 crore and ₹ 25 crore, respectively. Gross margins rose during the quarter due to better product mix, price hikes
- Fourth 2-W alloy wheel line is set to be commissioned in Q2FY22E
- New seating order win during the quarter would reach peak revenue potential (₹ 75 crore per annum) in FY24E
- On EV side, body control modules have gone into production.
- Harita would add one new 2-W customer during FY22E
- Present alloy wheel penetration in PVs is at ~30% vs. ~80-90% in developed markets. It is expected to reach >40% after three years
- QIP proceeds (₹ 700 crore) would be utilised towards redemption of preference shares issued to Harita shareholders (during August 2021 itself), acquisition stake in Harita Fehrer, retiring debt, investments, etc
- Net debt as of June 2021 was at ~₹ 1,220 crore (vs. ₹ 800 crore in FY21). Net debt to equity is seen at 0.2-0.3x by end-FY22E
- FY22E capex guidance stands unchanged at ₹ 600 crore, including ~₹ 200-250 crore for maintenance capex. Spends for alloy wheel expansion, blow moulding, lighting would be ₹ 170 crore, ₹ 90 crore, ₹ 100 crore, respectively. FY23E capex is seen at ₹ 250 crore, entirely for maintenance
- The company is currently not a supplier to Ola Electric but is in the discussion stage with major new age 2-W EV OEMs. It has received an order on the seating side recently for electric 2-W

TG Minda was a chief contributor to ₹ 5 crore JVs/associates loss in Q1FY22.

UZ Chasys acquisition is sought to be completed by November 2021

## Peer comparison

Exhibit 1: Peer Comparison (auto ancillaries)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			RoE (%)			RoCE (%)			P/E (x)		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Motherson Sumi (MOTSUM)	216	270	Buy	68,211	7.9	9.0	10.8	8.8	12.7	18.8	6.7	12.4	19.5	NM	39.8	24.0
<b>Minda Industries (MININD)</b>	<b>700</b>	<b>835</b>	<b>Buy</b>	<b>19,992</b>	<b>11.4</b>	<b>11.5</b>	<b>13.5</b>	<b>9.2</b>	<b>9.5</b>	<b>14.8</b>	<b>9.1</b>	<b>10.3</b>	<b>15.9</b>	<b>92.1</b>	<b>65.3</b>	<b>36.0</b>

Source: Company, ICICI Direct Research

MIL has, in the past, posted robust, profitable growth through its focus on value additive content, new product launches (borne out of regulations and consumer preferences) and inorganic acquisitions. MIL has a largely EV-agnostic product profile and is working on EV specific product introduction, which is a further positive. We believe the company is well placed to continue on its growth journey and remains a viable play on vehicular premiumisation in India. Further, with operating leverage benefits set to accrue and product mix poised to evolve continually in favour of new age offerings (sensors, controllers, alloy wheels, etc.) vs. legacy offerings (switches, horns, etc.), MIL is well placed to clock ~14% margins, 18% RoCE by FY24E in our view.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY%	Q4FY21	QoQ%	Comments
Total Operating Income	1,602.6	1,710.4	417.1	284.2	2,238.3	-28.4	Revenues came in lower than our estimates, albeit still better than underlying OEM volume de-growth for the quarter
Raw Material Expenses	982.0	1,094.7	241.7	306.3	1,404.4	-30.1	Gross margins expanded 140 bps vs. our expectation of 130 bps decline
Employee Expenses	276.2	248.0	166.3	66.1	296.5	-6.8	
Other Expenses	197.7	188.1	80.6	145.3	235.8	-16.2	
EBITDA	146.7	179.6	-71.5	-305.2	301.6	-51.4	
EBITDA Margin (%)	9.2	10.5	-17.1	2629 bps	13.5	-432 bps	Margins were below expectations despite favourable gross margin movement due to sharp negative operating leverage
Depreciation	90.5	100.4	68.2	32.7	107.2	-15.5	
Interest	18.5	22.8	19.6	-5.4	15.1	22.6	
Other Income	6.1	12.8	3.7	64.6	8.9	-31.0	Other income was lower than estimated
PBT (before exceptional)	43.8	69.1	-155.6	-128.2	188.3	-76.7	
Exceptional items	0.0	0.0	0.0		-1.7		
Total Tax	13.9	19.4	-36.8	-137.8	47.6	-70.8	
Reported PAT	15.4	48.6	-118.3	-113.0	140.4	-89.0	PAT miss was on account of lower-than-expected sales and margins as well as ₹ 5 crore loss from JVs & associates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY22E			FY23E			FY24E		Comments
	Old	New	% Change	Old	New	% Change	Introduced		
Revenue	7,653	7,706	0.7	8,977	9,038	0.7	10,252	Revenue estimates are barely changed, we introduce FY24E numbers	
EBITDA	880	889	1.1	1,212	1,220	0.7	1,410		
EBITDA Margin (%)	11.5	11.5	4 bps	13.5	13.5	0 bps	13.8	Margin estimates are barely changed, we introduce FY24E numbers	
PAT	300	306	2.0	528	555	5.1	699.1		
EPS (₹)	10.9	10.7	2.0	19.1	19.4	5.1	24.5	PAT estimates are revised upwards slightly tracking higher other income and profit from associates. We introduce FY24E numbers	

Source: ICICI Direct Research

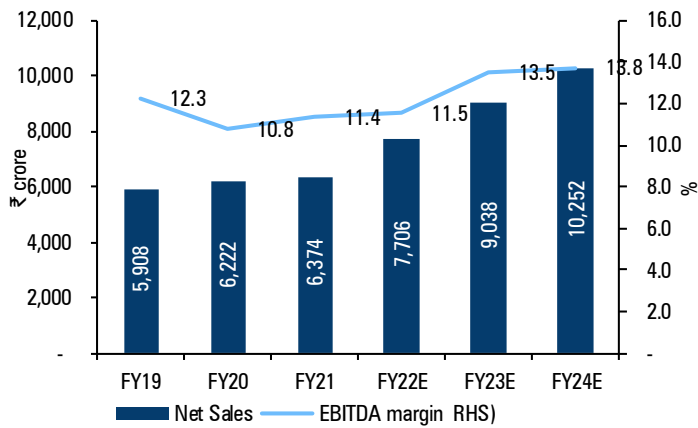
Exhibit 4: Assumptions

₹ crore	Current							Earlier		Comments
	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	
Switches	1,475	2,237	2,014	1,814	2,141	2,483	2,781	2,177	2,569	Consolidated net sales CAGR over FY21-24E is expected at 17.2%. The growth is expected to be led by light metal technology (castings) and others segment, with share of legacy businesses i.e., switches, lighting and acoustics continuing to decline over this time
Lighting	1,159	1,293	1,223	1,417	1,672	1,940	2,211	1,771	2,037	
Acoustics	671	717	653	607	698	789	868	728	816	
LMT	585	908	781	748	1,010	1,262	1,515	1,010	1,262	
Others	581	754	1,551	1,788	2,186	2,564	2,877	1,967	2,294	
<b>Total Sales</b>	<b>4,471</b>	<b>5,909</b>	<b>6,222</b>	<b>6,374</b>	<b>7,706</b>	<b>9,038</b>	<b>10,252</b>	7,653	8,977	

Source: ICICI Direct Research

## Financial story in charts

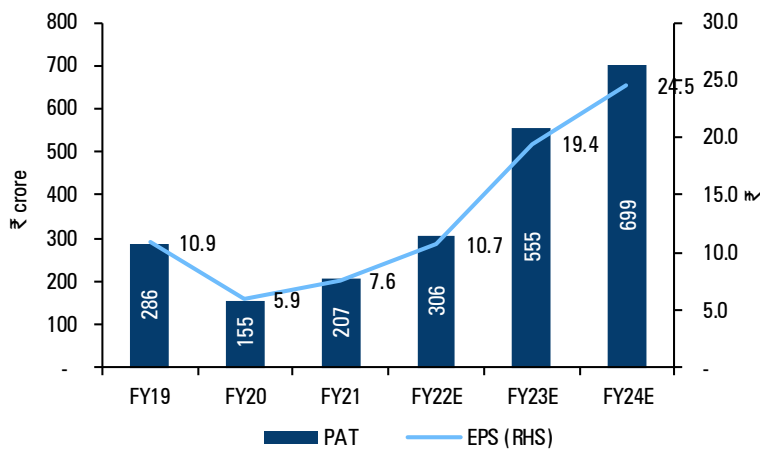
Exhibit 5: Topline and margin trend



We expect sales to grow at a CAGR of 17.2% over FY21-24E

Source: Company, ICICI Direct Research

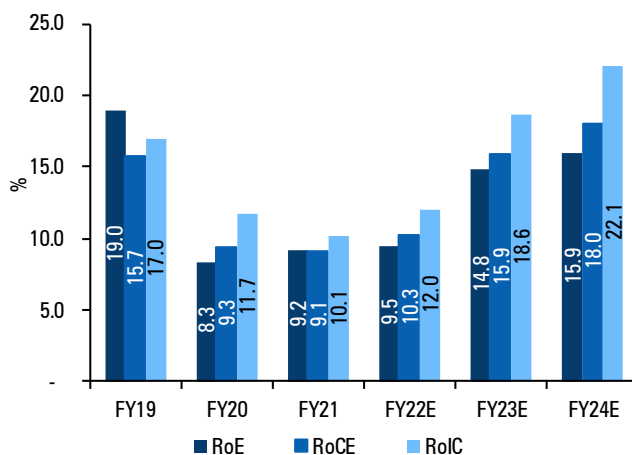
Exhibit 6: Trend in PAT and EPS



Margins are seen climbing to 13.8% by FY24E

Source: Company, ICICI Direct Research

Exhibit 7: Trend in return ratios



The company is seen returning firmly into double-digit return ratio territory by FY23E

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	5,908	32.2	10.9	(7.9)	64.3	28.9	19.0	15.7
FY20	6,222	5.3	5.9	(45.7)	118.3	31.0	8.3	9.3
FY21	6,374	2.4	7.6	28.4	92.1	28.7	9.2	9.1
FY22E	7,706	20.9	10.7	41.0	65.3	23.1	9.5	10.3
FY23E	9,038	17.3	19.4	81.4	36.0	16.3	14.8	15.9
FY24E	10,252	13.4	24.5	25.9	28.6	13.6	15.9	18.0

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	6373.7	7706.0	9037.6	10251.9
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>6,373.7</b>	<b>7,706.0</b>	<b>9,037.6</b>	<b>10,251.9</b>
Growth (%)	2.4	20.9	17.3	13.4
Raw Material Expenses	3,919.3	4,745.8	5,535.5	6,279.3
Employee Expenses	981.7	1,161.2	1,265.3	1,384.0
Other Operating Expense	747.8	909.7	1,016.7	1,179.0
Total Operating Expenditure	5,648.8	6,816.7	7,817.5	8,842.3
<b>EBITDA</b>	<b>725.0</b>	<b>889.3</b>	<b>1,220.1</b>	<b>1,409.6</b>
Growth (%)	7.9	22.7	37.2	15.5
Depreciation	375.3	404.6	451.9	487.0
Interest	73.7	64.6	35.2	7.2
Other Income	47.0	24.4	33.8	51.1
<b>PBT</b>	<b>323.1</b>	<b>444.5</b>	<b>766.9</b>	<b>966.6</b>
Others	15.9	12.4	-3.0	-3.2
Total Tax	100.5	126.1	214.7	270.6
<b>PAT</b>	<b>206.6</b>	<b>306.0</b>	<b>555.2</b>	<b>699.1</b>
Growth (%)	33.1	48.1	81.4	25.9
<b>EPS (₹)</b>	<b>7.6</b>	<b>10.7</b>	<b>19.4</b>	<b>24.5</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	206.6	306.0	555.2	699.1
Add: Depreciation	375.3	404.6	451.9	487.0
(Inc)/dec in Current Assets	-512.6	-427.2	-455.5	-415.4
Inc/(dec) in CL and Provisions	130.0	-13.5	317.8	290.3
Others	73.7	64.6	35.2	7.2
<b>CF from operating activities</b>	<b>273.0</b>	<b>334.4</b>	<b>904.5</b>	<b>1,068.1</b>
(Inc)/dec in Investments	-127.6	-83.4	-140.0	-200.0
(Inc)/dec in Fixed Assets	-276.4	-600.0	-250.0	-250.0
Others	60.9	33.5	39.9	42.4
<b>CF from investing activities</b>	<b>-343.1</b>	<b>-650.0</b>	<b>-350.1</b>	<b>-407.6</b>
Issue/(Buy back) of Equity	1.9	2.7	0.0	0.0
Inc/(dec) in loan funds	-147.9	-130.0	-420.0	-400.0
Interest and Dividend outgo	-96.8	-93.1	-78.0	-64.3
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	210.0	698.0	0.0	0.0
<b>CF from financing activities</b>	<b>-32.7</b>	<b>477.7</b>	<b>-498.0</b>	<b>-464.3</b>
<b>Net Cash flow</b>	<b>-102.7</b>	<b>162.1</b>	<b>56.4</b>	<b>196.2</b>
Opening Cash	340.9	238.1	400.2	456.6
<b>Closing Cash</b>	<b>238.1</b>	<b>400.2</b>	<b>456.6</b>	<b>652.8</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	54.4	57.1	57.1	57.1
Reserve and Surplus	2,202.2	3,177.6	3,689.9	4,331.9
<b>Total Shareholders funds</b>	<b>2256.5</b>	<b>3,234.7</b>	<b>3,747.1</b>	<b>4,389.0</b>
Total Debt	1,052.4	922.4	502.4	102.4
Deferred Tax Liability	29.9	29.9	29.9	29.9
Minority Interest / Others	486.6	520.0	559.9	602.3
<b>Total Liabilities</b>	<b>3825.4</b>	<b>4,707.1</b>	<b>4,839.3</b>	<b>5,123.7</b>
<b>Assets</b>				
Gross Block	3,753.5	4,237.8	4,587.8	4,937.8
Less: Acc Depreciation	1,238.4	1,643.0	2,094.9	2,581.8
Net Block	2,515.1	2,594.8	2,493.0	2,356.0
Capital WIP	134.3	250.0	150.0	50.0
<b>Total Fixed Assets</b>	<b>2,649.4</b>	<b>2,844.8</b>	<b>2,643.0</b>	<b>2,406.0</b>
Investments & Goodwill	811.9	895.3	1,035.3	1,235.3
Inventory	750.6	844.5	990.4	1,123.5
Debtors	1,198.8	1,477.9	1,733.2	1,966.1
Loans and Advances	30.2	36.5	42.8	48.6
Other Current Assets	229.3	277.2	325.1	368.8
<b>Cash</b>	<b>238.1</b>	<b>400.2</b>	<b>456.6</b>	<b>652.8</b>
Total Current Assets	2,447.0	3,036.3	3,548.2	4,159.8
Current Liabilities	1,977.9	1,939.0	2,222.3	2,481.2
Provisions	174.1	199.5	234.0	265.4
Current Liabilities & Prov	2,152.0	2,138.5	2,456.3	2,746.6
<b>Net Current Assets</b>	<b>295.0</b>	<b>897.8</b>	<b>1,091.9</b>	<b>1,413.2</b>
Others Assets	69.1	69.1	69.1	69.1
<b>Application of Funds</b>	<b>3,825.4</b>	<b>4,707.1</b>	<b>4,839.3</b>	<b>5,123.7</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	7.6	10.7	19.4	24.5
Cash EPS	21.4	24.9	35.3	41.5
BV	83.0	113.3	131.2	153.7
DPS	0.9	1.0	1.5	2.0
Cash Per Share (Incl Invst)	8.8	14.4	19.5	31.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.4	11.5	13.5	13.8
PAT Margin	3.2	4.0	6.1	6.8
Inventory days	43.0	40.0	40.0	40.0
Debtor days	68.7	70.0	70.0	70.0
Creditor days	73.9	70.0	70.0	70.0
<b>Return Ratios (%)</b>				
RoE	9.2	9.5	14.8	15.9
RoCE	9.1	10.3	15.9	18.0
RoIC	10.1	12.0	18.6	22.1
<b>Valuation Ratios (x)</b>				
P/E	92.1	65.3	36.0	28.6
EV / EBITDA	28.7	23.1	16.3	13.6
EV / Net Sales	3.3	2.7	2.2	1.9
Market Cap / Sales	3.1	2.6	2.2	2.0
Price to Book Value	8.4	6.2	5.3	4.6
<b>Solvency Ratios</b>				
Debt/EBITDA	1.5	1.0	0.4	0.1
Debt / Equity	0.5	0.3	0.1	0.0
Current Ratio	1.1	1.3	1.3	1.4
<b>Quick Ratio</b>	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct coverage universe (Auto & Auto Ancillary)**

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	226	275	Buy	14,352	5.5	10.2	16.6	41.0	22.1	13.6	6.8	7.0	5.1	7.6	6.1	9.1	6.4	5.5	8.4
Ashok Leyland (ASHLEY)	128	160	Buy	37,467	-1.1	0.4	4.6	-119.8	289.4	27.5	75.5	33.8	13.9	-1.9	3.2	16.5	-4.4	1.9	17.7
Bajaj Auto (BAAUTO)	3,748	4,350	Hold	1,08,456	157.4	167.7	193.6	23.8	22.3	19.4	17.6	16.4	13.8	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,284	2,825	Buy	44,154	59.8	67.0	78.4	38.2	34.1	29.1	25.0	21.9	19.0	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	804	1,000	Buy	37,446	-2.7	17.2	25.1	NM	46.8	32.0	46.3	21.8	17.1	2.2	9.3	12.7	3.3	14.0	16.8
Eicher Motors (EICMOT)	2,496	2,920	Buy	68,216	49.3	64.9	96.4	50.6	38.5	25.9	34.0	26.1	17.7	11.3	13.7	17.8	11.8	14.0	18.0
Escorts (ESCORT)	1,264	1,329	Hold	15,494	71.2	67.7	78.2	17.7	18.7	16.2	11.1	11.9	9.7	18.7	14.7	15.1	16.2	13.6	13.8
Hero Moto (HERHON)	2,755	3,115	Hold	55,017	148.4	155.9	188.8	18.6	17.7	14.6	11.6	11.0	8.8	20.8	20.1	22.3	19.5	18.6	20.3
M&M (MAHMAH)	796	1,000	Buy	98,959	2.3	33.6	39.1	353.5	23.7	20.4	14.7	13.8	12.1	9.5	9.8	10.9	2.7	10.9	11.4
Maruti Suzuki (MARUTI)	6,770	6,400	Reduce	2,04,508	140.0	153.1	228.5	48.4	44.2	29.6	30.1	25.2	17.1	4.3	5.9	9.5	8.2	8.5	11.7
<b>Minda Industries (MININD)</b>	<b>700</b>	<b>835</b>	<b>Buy</b>	<b>19,992</b>	<b>7.6</b>	<b>10.7</b>	<b>19.4</b>	<b>92.1</b>	<b>65.3</b>	<b>36.0</b>	<b>28.7</b>	<b>23.1</b>	<b>16.3</b>	<b>9.1</b>	<b>10.3</b>	<b>15.9</b>	<b>9.2</b>	<b>9.5</b>	<b>14.8</b>
Motherson (MOTSUM)	216	270	Buy	68,211	3.3	5.4	9.0	NM	39.8	24.0	15.1	10.9	8.0	6.7	12.4	19.5	8.8	12.7	18.8
Tata Motors (TATMOT)	302	375	Buy	1,15,636	-35.0	0.9	37.9	NM	350.7	8.0	5.2	5.0	3.2	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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