

Investment thesis intact, valuations limit upside...

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

Q2FY22 Results: The company reported robust Q2FY22 results.

- Consolidated revenues were at ₹ 2,114 crore, up 31.9% QoQ
- EBITDA margins for the quarter came in at 10.8%, up 160 bps QoQ
- Consolidated PAT in Q2FY22 was at ₹ 94.7 crore (vs. ₹ 15.4 crore - Q1FY22)

What should investors do? MIL's share price has jumped >9x from ~₹ 100 levels in November 2016, thereby vastly outperforming Nifty Auto index in that time.

- We downgrade the stock from BUY to **HOLD** amid sharp run up in the recent past with prevailing valuations (~37x P/E on FY24E) limiting the upside

Target Price and Valuation: We value the company at a revised target price of ₹ 940 i.e. 40x P/E on FY24E EPS of ₹ 23.5 (previous target ₹ 835)

Key triggers for future price performance:

- We build 20.7% net sales CAGR (FY21-24E) riding on OEM ramp up, 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 12.5%, 18% (FY24E)
- B/s strength to sustain with FY22E debt: equity at 0.2x

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



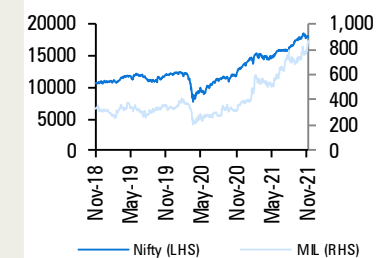
Particulars

Particulars	Amount
Market capitalisation (₹ crore)	24,619
Total Debt (FY21, ₹ crore)	1,052
Cash & Inv. (FY21, ₹ crore)	240
EV (₹ crore)	25,432
52 week H/L (₹)	884 / 281
Equity capital (₹ crore)	57.1
Face value (₹)	2.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	70.9	70.9	69.8	67.5
FII	9.6	9.6	9.0	9.2
DII	10.2	10.5	10.9	13.7
Other	9.3	9.0	10.3	9.6

Price Chart



Recent event & key risks

- Posts robust Q2FY22 results with EBITDA margins up 160 bps QoQ
- Key Risk:** (i) Higher than anticipated kit value increase, (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%	8,261.6	9,785.4	11,212.3	20.7%
EBITDA	725.2	671.8	725.0	25.0%	897.3	1,174.2	1,401.5	24.6%
EBITDA Margins (%)	12.3	10.8	11.4		10.9	12.0	12.5	
Net Profit	285.6	155.2	206.6	13.3%	310.3	507.2	669.8	48.0%
EPS (₹)	10.9	5.9	7.6		10.9	17.8	23.5	
P/E	79.1	145.6	113.4		79.3	48.5	36.8	
RoNW (%)	19.0	8.3	9.2		9.6	13.7	15.5	
RoCE (%)	15.7	9.3	9.1		10.6	15.1	17.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: handsome beat on all fronts

- Consolidated EBITDA for Q2FY22 was at ₹ 228 crore with attendant margins up 162 bps QoQ to 10.8%. Margin expansion on a QoQ basis was achieved despite sharp gross margin contraction of 210 bps on the back of strong operating leverage gains that were higher than expectations
- Reported consolidated PAT for the quarter was at ₹ 94.7 crore vs. ₹ 15.4 crore in Q1FY22. Profitability beat tracked higher-than-expected revenues and margins as well as substantial improvement in profit contribution from associates/JVs - which for the quarter were at ~₹ 21 crore
- With recent raise of equity in the form of QIP amounting to ~₹ 700 crore, the company has retired debt to the tune of ~₹ 350 crore in H1FY22

Q2FY22 Earnings Conference Call highlights

- Revenue growth in Q2FY22 was led by all businesses, especially 2-W alloy wheels and price hikes. The 2-W alloy wheel and 4-W alloy wheel revenues for the quarter were at ~₹ 70 crore and ~₹ 190 crore, respectively. Sensors and controllers contributed ~₹ 68 crore
- Worst of the chip shortage could be behind us; however, Minda expects constraints to last well into 2022 amid gradual improvement sequentially
- MIL won its first ever order for LED multifaceted reflective headlamp from a Japanese PV OEM (to commence in early 2024; annual revenue potential of >₹ 50 crore) New lighting order wins in recent quarters have revenue potential of >₹ 300 crore annually. Its JV with TTE Daps has also recently won an order from Indian OEM for camera business worth >₹ 100 crore annual revenue potential. New order win for suspended seats from off highway segment in Q2FY22 has 4x ASPs compared to regular seats
- Margin decline YoY was due to under recovery of margin component on raw material related price hikes, timing difference in passing on cost increases and higher salaries. Long term margin guidance stays at 12%+
- Alloy wheel penetration in India is at ~30% (PV) vs. 80-90% internationally. Looking at strong demand visibility, MIL may undertake capacity expansion at Gujarat 4-W alloy wheel plant. 4-W alloy wheel capacity may increase to 2.8 lakh units p.m. (1 lakh in Gujarat, 1.8 lakh in Bawal). Bawal enhanced capacity would come on-stream from the end of the year or early next year

MIL has added two more EV specific products i.e. residual current cables (RCD cables) and acoustic vehicle alert systems to its under development portfolio. These would take a year for development. The company is looking to completely localise RCD cable. Three products i.e. BMS, BCM and on board charger are now under production. Overall electric 2-W kit value is at ₹ 28,300/unit including ₹ 2,000/unit from new products under development and ~₹ 16,500/unit from products under production. MIL is looking to localise or diversify supply chain for EV parts ex-chips such as magnets, capacitors, etc. It has anchor clients for all EV products under development and serves four to five EV clients. However, it is yet to on-board Ola Electric. MIL is open for technology partnership in motors and motor controllers

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)	237	280	Buy	74,843	7.9	9.0	10.9	8.8	12.9	19.4	6.7	12.6	19.9	68.0	42.9	25.4
Minda Industries (MININD)	862	940	Hold	24,619	11.4	10.9	12.0	9.2	9.6	13.7	9.1	10.6	15.1	113.4	79.3	48.5

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 ~12.5% margins, 18% RoCE by FY24E in our view. The stock price of MIL however has run up too fast in the recent past with current valuations at ~37x P/E on FY24E limiting the upside potential. Hence, we downgrade the stock to HOLD.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY%	Q1FY22	QoQ%	Comments
Total Operating Income	2,114.0	1,836.2	1,465.0	44.3	1,602.6	31.9	Topline came in much ahead of estimates and was up 32% QoQ to ₹ 2,114 crore
Raw Material Expenses	1,340.6	1,147.6	881.4	52.1	982.0	36.5	RM costs came in higher than anticipated at 63.4% of sales, up 310 bps QoQ
Employee Expenses	302.5	275.4	204.1	48.2	276.2	9.5	
Other Expenses	243.0	220.3	164.2	48.0	197.7	22.9	Other expenses were contained at 11.5% of sales
EBITDA	227.9	192.8	215.4	5.8	146.7	55.3	
EBITDA Margin (%)	10.8	10.5	14.7	-392 bps	9.2	162 bps	EBITDA margins came in higher tracking operating leverage benefits amidst pressure on gross margins
Depreciation	96.8	104.7	81.0	19.5	90.5	7.0	
Interest	17.7	15.3	18.1	-2.5	18.5	-4.7	Interest costs was broadly on expected lines
Other Income	21.1	6.3	12.5	68.1	6.1	243.0	
PBT (before exceptional)	134.5	79.0	128.8	4.4	43.8	206.9	
Exceptional items	0.0	0.0	0.0		0.0		
Total Tax	42.3	22.1	44.4	-4.7	13.9	203.8	Tax rate for the quarter came in at 31.4%
Reported PAT	94.7	57.3	80.8	17.3	15.4	514.3	PAT came in much higher tracking beat on sales as well as margin estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	7,706	8,262	7.2	9,038	9,785	8.3	10,251.9	11,212	9.4	Upgraded our sales estimates primarily tracking cost inflation led price increases across product profile as well as constant kit value increase focus at MIL
EBITDA	889	897	0.9	1,220	1,174	-3.8	1,409.6	1,402	-0.6	
EBITDA Margin (%)	11.5	10.9	-64 bps	13.5	12.0	-150 bps	13.8	12.5	-130 bps	Lowered margin estimates tracking pressure on gross margins amid cost pass thru on absolute basis
PAT	306	310	1.4	555	507	-8.6	699.1	669.8	-4.2	
EPS (₹)	10.7	10.9	1.4	19.4	17.8	-8.6	24.5	23.5	-4.2	Trimming of margin estimates leads to single digit downward revision in earnings estimates for FY22-23E

Source: ICICI Direct Research

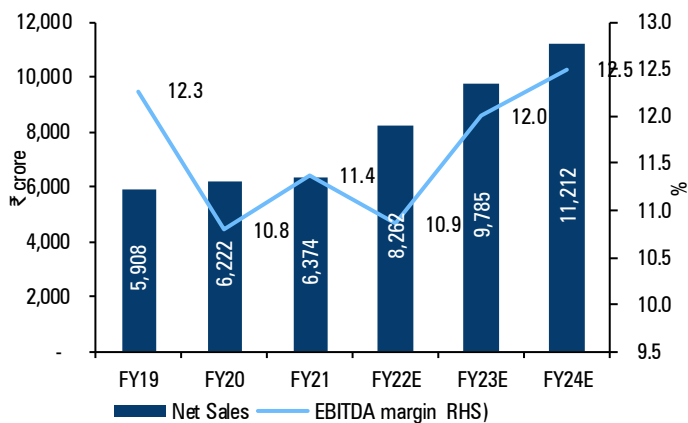
Exhibit 4: Assumptions

(₹ crore)	Current					Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Switches	2,014	1,814	2,358	2,783	3,117	2,141	2,483	2,781	Upgraded our sales estimates across product categories except acoustics. We expect consolidated sales at MIL to grow at a CAGR of 20.7% over FY21-24E, led by growth in the LMT division which includes the alloy wheel division
Lighting	1,223	1,417	1,700	2,006	2,287	1,672	1,940	2,211	
Acoustics	653	607	637	701	771	698	789	868	
LMT	781	748	1,309	1,636	1,964	1,010	1,262	1,515	
Others	1,551	1,788	2,257	2,659	3,074	2,186	2,564	2,877	
Total Sales	6,222	6,374	8,262	9,785	11,212	7,706	9,038	10,252	

Source: ICICI Direct Research

Financial story in charts

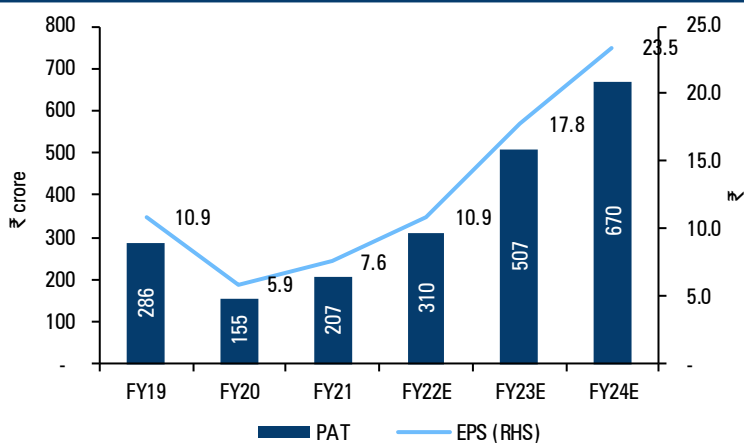
Exhibit 5: Topline and margin trend



Source: Company, ICICI Direct Research

We expect sales to grow at a CAGR of 20.7% over FY21-24E with EBITDA margins set to improve to 12.5% by FY24E

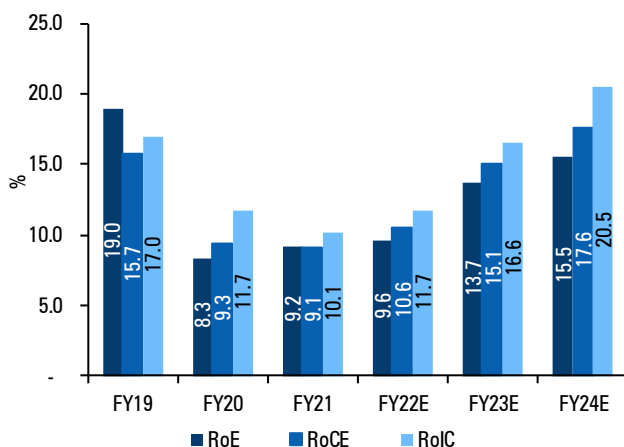
Exhibit 6: Trend in PAT and EPS



Source: Company, ICICI Direct Research

We expect MIL to report an EPS of ₹ 17.8 in FY23E and ₹ 23.5 in FY24E

Exhibit 7: Trend in return ratios



Source: Company, ICICI Direct Research

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

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)	79.1	35.3	19.0	15.7
FY20	6,222	5.3	5.9	(45.7)	145.6	37.9	8.3	9.3
FY21	6,374	2.4	7.6	28.4	113.4	35.1	9.2	9.1
FY22E	8,262	29.6	10.9	43.0	79.3	28.1	9.6	10.6
FY23E	9,785	18.4	17.8	63.5	48.5	21.0	13.7	15.1
FY24E	11,212	14.6	23.5	32.1	36.8	17.1	15.5	17.6

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	8261.6	9785.4	11212.3	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	6,373.7	8,261.6	9,785.4	11,212.3	
Growth (%)	2.4	29.6	18.4	14.6	
Raw Material Expenses	3,919.3	5,208.7	6,164.8	7,063.8	
Employee Expenses	981.7	1,192.3	1,321.0	1,457.6	
Other Operating Expense	747.8	963.4	1,125.3	1,289.4	
Total Operating Expenditure	5,648.8	7,364.4	8,611.1	9,810.8	
EBITDA	725.0	897.3	1,174.2	1,401.5	
Growth (%)	7.9	23.8	30.9	19.4	
Depreciation	375.3	413.1	464.8	504.6	
Interest	73.7	54.1	24.7	3.7	
Other Income	47.0	26.7	24.0	46.9	
PBT	323.1	456.8	708.8	940.2	
Others	15.9	6.8	-11.1	-11.7	
Total Tax	100.5	139.8	212.6	282.1	
PAT	206.6	310.3	507.2	669.8	
Growth (%)	33.1	50.2	63.5	32.1	
EPS (₹)	7.6	10.9	17.8	23.5	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	206.6	310.3	507.2	669.8	
Add: Depreciation	375.3	413.1	464.8	504.6	
(Inc)/dec in Current Assets	-512.6	-390.9	-479.5	-449.0	
Inc/(dec) in CL and Provisions	130.0	-139.9	315.6	295.9	
Others	73.7	54.1	24.7	3.7	
CF from operating activities	273.0	246.6	832.8	1,024.9	
(Inc)/dec in Investments	-127.6	-83.4	-90.0	-400.0	
(Inc)/dec in Fixed Assets	-276.4	-600.0	-300.0	-300.0	
Others	60.9	56.5	72.5	76.6	
CF from investing activities	-343.1	-626.9	-317.5	-623.4	
Issue/(Buy back) of Equity	1.9	2.7	0.0	0.0	
Inc/(dec) in loan funds	-147.9	-280.0	-420.0	-300.0	
Interest and Dividend outgo	-96.8	-82.6	-67.5	-60.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	210.0	698.0	0.0	0.0	
CF from financing activities	-32.7	338.2	-487.5	-360.8	
Net Cash flow	-102.7	-42.2	27.8	40.7	
Opening Cash	340.9	238.1	195.9	223.8	
Closing Cash	238.1	195.9	223.8	264.5	

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity Capital	54.4	57.1	57.1	57.1	
Reserve and Surplus	2,202.2	3,181.9	3,646.3	4,259.0	
Total Shareholders funds	2256.5	3,239.0	3,703.4	4,316.2	
Total Debt	1,052.4	772.4	352.4	52.4	
Deferred Tax Liability	29.9	29.9	29.9	29.9	
Minority Interest / Others	486.6	543.1	615.6	692.2	
Total Liabilities	3825.4	4,584.4	4,701.4	5,090.7	
Assets					
Gross Block	3,753.5	4,237.8	4,637.8	5,037.8	
Less: Acc Depreciation	1,238.4	1,651.5	2,116.3	2,620.9	
Net Block	2,515.1	2,586.3	2,521.5	2,417.0	
Capital WIP	134.3	250.0	150.0	50.0	
Total Fixed Assets	2,649.4	2,836.3	2,671.5	2,467.0	
Investments & Goodwill	811.9	895.3	985.3	1,385.3	
Inventory	750.6	905.4	1,072.4	1,228.7	
Debtors	1,198.8	1,358.1	1,608.6	1,843.1	
Loans and Advances	30.2	39.1	46.4	53.1	
Other Current Assets	229.3	297.2	352.0	403.4	
Cash	238.1	195.9	223.8	264.5	
Total Current Assets	2,447.0	2,795.7	3,303.1	3,792.8	
Current Liabilities	1,977.9	1,828.8	2,110.5	2,374.7	
Provisions	174.1	183.3	217.1	248.8	
Current Liabilities & Prov	2,152.0	2,012.1	2,327.7	2,623.5	
Net Current Assets	295.0	783.7	975.4	1,169.3	
Others Assets	69.1	69.1	69.1	69.1	
Application of Funds	3,825.4	4,584.4	4,701.4	5,090.7	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Per share data (₹)					
EPS	7.6	10.9	17.8	23.5	
Cash EPS	21.4	25.3	34.0	41.1	
BV	83.0	113.4	129.7	151.1	
DPS	0.9	1.0	1.5	2.0	
Cash Per Share (Incl Invst)	8.8	7.2	9.6	23.3	
Operating Ratios (%)					
EBITDA Margin	11.4	10.9	12.0	12.5	
PAT Margin	3.2	3.8	5.2	6.0	
Inventory days	43.0	40.0	40.0	40.0	
Debtor days	68.7	60.0	60.0	60.0	
Creditor days	73.9	60.0	60.0	60.0	
Return Ratios (%)					
RoE	9.2	9.6	13.7	15.5	
RoCE	9.1	10.6	15.1	17.6	
RoIC	10.1	11.7	16.6	20.5	
Valuation Ratios (x)					
P/E	113.4	79.3	48.5	36.8	
EV / EBITDA	35.1	28.1	21.0	17.1	
EV / Net Sales	4.0	3.0	2.5	2.1	
Market Cap / Sales	3.9	3.0	2.5	2.2	
Price to Book Value	10.4	7.6	6.6	5.7	
Solvency Ratios					
Debt/EBITDA	1.5	0.9	0.3	0.0	
Debt / Equity	0.5	0.2	0.1	0.0	
Current Ratio	1.1	1.4	1.4	1.5	
Quick Ratio	0.7	0.9	0.9	0.9	

Source: Company, ICICI Direct Research

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

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyre (APOTYR)	231	275	Buy	14,670	5.5	12.3	18.9	41.9	18.7	12.2	6.9	7.1	5.1	7.6	6.8	9.7	6.4	6.6	9.4
Ashok Leyland (ASHLEY)	146	160	Buy	42,736	-1.1	0.4	4.6	-136.6	330.1	31.4	85.4	38.1	15.7	-1.9	3.2	16.5	-4.4	1.9	17.7
Bajaj Auto (BAAUTO)	3,751	4,220	Hold	1,08,543	157.4	164.9	191.3	23.8	22.7	19.6	17.6	16.8	14.1	18.2	18.9	22.0	18.1	18.6	21.1
Balkrishna Ind. (BALIND)	2,379	2,825	Buy	45,990	59.8	67.0	78.4	39.8	35.5	30.3	26.0	22.8	19.8	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	782	1,000	Buy	36,408	-2.7	17.2	25.1	NM	45.5	31.2	45.1	21.3	16.6	2.2	9.3	12.7	3.3	14.0	16.8
Eicher Motors (EICMOT)	2,724	3,050	Hold	74,447	49.3	66.9	100.6	55.3	40.7	27.1	37.5	27.4	18.4	11.3	14.7	19.1	11.8	14.4	18.6
Escorts (ESCORT)	1,520	1,900	Buy	18,632	71.2	71.0	84.0	21.3	21.4	18.1	13.9	13.9	11.4	18.7	15.7	16.0	16.2	14.1	14.6
Hero Moto (HERHON)	2,715	3,115	Hold	54,219	148.4	155.9	188.8	18.3	17.4	14.4	11.4	10.8	8.7	20.8	20.1	22.3	19.5	18.6	20.3
M&M (MAHMAH)	925	1,125	Buy	1,14,996	2.3	35.3	40.5	410.8	26.2	22.9	17.2	16.4	13.7	9.5	9.6	11.2	2.7	11.8	11.7
Maruti Suzuki (MARUTI)	7,453	6,000	Sell	2,25,140	140.0	88.4	200.0	53.2	84.3	37.3	34.1	41.5	21.2	4.3	2.5	8.9	8.2	5.0	10.6
Minda Industries (MININD)	862	940	Hold	24,619	7.6	10.9	17.8	113.4	79.3	48.5	35.1	28.1	21.0	9.1	10.6	15.1	9.2	9.6	13.7
Motherson (MOTSUM)	239	280	Buy	75,475	3.3	5.5	9.3	NM	43.2	25.7	16.6	11.9	8.6	6.7	12.6	19.9	8.8	12.9	19.4
Tata Motors (TATMOT)	503	600	Buy	1,92,599	-35.0	-13.9	35.7	NM	-36.2	14.1	7.3	7.6	4.5	6.3	6.7	16.2	-23.6	-10.3	21.0

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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