

## Announces fresh round of capex, investment spends

**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

**Company update:** The company announced fresh capex in alloy wheel space, equity investment in FRIWO AG, formation of JV with FRIWO AG for EV components.

- MIL guided for: (i) expansion in alloy wheel capacity across the 2-W & 4-W segments at a capex outlay of ~₹ 264 crore; (ii) formation of JV (50.1% stake) with FRIWO AG for electric vehicle components for 2-W, 3-W with initial investment commitment of ~₹ 71 crore (over the next three years);
- (iii) Equity investment in FRIWO AG through fresh issuance of shares for a total value of ₹15 million (~₹ 130 crore) subject to regulatory approvals

**What should investors do?** MIL's share price has jumped >10x from ~₹ 100 levels in December 2016 thereby vastly outperforming Nifty Auto index in that timeframe.

- We are positive on the growth prospects at MIL but retain our **HOLD** rating on the stock amid rich valuations (trades at >40x P/E on FY24E)

**Target Price and Valuation:** We value the company at a revised target price of ₹ 1060 i.e. 44x P/E on FY24E EPS of ₹ 24.1 (earlier target price: ₹ 940).

### Key triggers for future price performance:

- We build 22.5% 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 margin, RoCE to 12.8%, 17% (FY24E), respectively

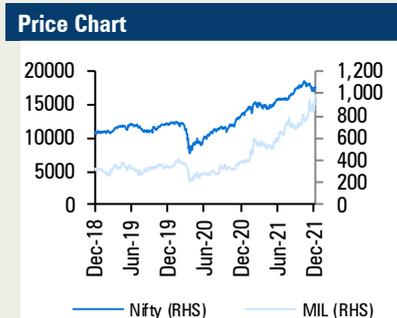
**Alternate Stock Idea:** Besides MIL, in our ancillary coverage we like Apollo Tyres.

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



Particulars	
Market capitalisation (₹ crore)	29,132
Total Debt (FY21, ₹ crore)	1,052
Cash & Inv. (FY21, ₹ crore)	240
EV (₹ crore)	29,945
52 week H/L (₹)	1044 / 365
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



### Recent event & key risks

- Announces fresh capex spend, investments in alloy wheel as well as EV components domain
- Key Risk:** (i) More than anticipated ramp up in sales, (ii) gross margin pressure led by higher commodity prices

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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	11,719.8	22.5%
EBITDA	725.2	671.8	725.0	25.0%	897.3	1,174.2	1,494.3	27.3%
EBITDA Margins (%)	12.3	10.8	11.4		10.9	12.0	12.8	
Net Profit	285.6	155.2	206.6	13.3%	312.6	491.2	688.9	49.4%
EPS (₹)	10.9	5.9	7.6		10.9	17.2	24.1	
P/E	93.6	172.3	134.2		93.2	59.3	42.3	
RoNW (%)	19.0	8.3	9.2		9.6	13.3	15.9	
RoCE (%)	15.7	9.3	9.1		10.4	13.8	17.4	

## Key highlights & conference call takeaway

### Company Update: Fresh capex, investment spends over FY22-24E

- According to the recent exchange filing, Minda Industries has announced a fresh round of capex and investment spends, which include (i) expansion in alloy wheel capacity across the 2-W & 4-W segments at a capex outlay of ~₹ 264 crore; (ii) formation of JV (50.1% stake) with FRIWO AG for electric vehicle components for 2-W, 3-W (motor controllers, off-board chargers, battery packs) with initial investment commitment of ~₹ 71 crore (over the next three years) and total capex envisaged at JV company pegged at ~₹ 390 crore over a six year period; (iii) equity investment in FRIWO AG through fresh issuance of shares for a total value of ₹15 million (~₹ 130 crore)
- The company has been at the forefront driving premiumisation in the domestic automobile space. Alloy wheel capex is well positioned to capture the increasing consumer preference for the product as well as import substitution while JV in the EV components domain will help in substantial improvement in kit value in the electric vehicle domain. With likely commissioning of new projects over FY23-24E, the company is expected to sustain its outperformance in the domestic automobile space

### Conference Call highlights

#### EV Components: FRIWO JV

- FRIWO currently realises ~20% of sales from e-mobility with total annual sales pegged at ₹100 million and market capitalisation of ₹270 million
- JV operations are expected to commence in about 12-18 months. Initial capex of ~₹ 160 crore would be utilised for the purpose of buying land for the new plant and associated plant & machinery. Capex of ~₹ 390 crore in JV would take place in a phased manner gauging the market demand
- With an initial investment of ~₹ 160 crore, expected revenue is ~₹ 300 crore, with full scale revenue potential pegged at >₹ 1500 crore in about five years. Margins are expected to be muted during the initial phase. However, as the market matures and attains scale, Minda's targeted RoCE profile is ~20%
- The JV company will also look at contract manufacturing; with likely exports to European and Asian markets with sales potential of ~₹ 250-300 crore in due course of time. JV will evaluate PLI scheme for battery pack
- Minda Industries' purchase of ₹15 million worth of fresh shares in FRIWO AG (Germany) is aimed at strengthening the relationship between the partners with Minda open to exit at a favourable price in future
- The company will also transfer its existing EV components business to the proposed JV except Telematics
- Off-board chargers would be supplied to both OEMs and charging stations

*With respect to the new products being offered by FRIWO i.e. battery packs and BMS; some OEMs prefer to outsource and some may prefer in-house, with Minda Industries optimistic that it can capture reasonable share for outsourced market*

*With regard to the current JV; focus is primarily on 2-W & 3-W related EV components, PV & CV are currently outside their purview. The company may enter into PV at a later stage but no plans till now*

#### Temperature controlled seating solutions: Dhama Innovations

- Minda Industries has entered into a technology license agreement (TLA) with Dhama Innovations in the domain of temperature controlled automotive seats domain. At present, Dhama has no customer in India but device for which TLA has been signed may be seen in high end scooters with limited adoption in the near period. Further, this device is different from ventilated seats that are currently in the market
- The company aims to double sales in the seating business i.e. Harita seating in about four to five years

#### Alloy Wheels: Brownfield expansion

- For 4-W alloy wheel segment, sustainable EBITDA margins are seen at ~16-17%. Exports remain a possibility in the alloy wheel segment post meeting the domestic demand

Exhibit 1: Capabilities across JV partners

Joint Venture Synergies



EV Products

Products	UNO MINDA	FRIWO	UNO MINDA+ FRIWO
Battery Management System (BMS)	✓	✓	✓
DC-DC converter	✓	✗	✓
Acoustic Vehicle Alert System	✓	✗	✓
On Board Chargers	✓	✓	✓
Off Board Chargers	✗	✓	✓
Smart plug with RCD Cable	✓	✗	✓
Body Control Module (BCM)	✓	✗	✓
Motor Controllers	✗	✓	✓
Battery Packs	✗	✓	✓

- ✎ FRIWO has anchor customers in India for BMS and Off-board Chargers and same will be transferred in JV Entity
- ✎ UNO Minda will also transfer its existing business and orders for the above products in JV entity.
- ✎ The combined entity will offer full line e-drive solutions for electrical two-and three wheelers in the Indian subcontinent market, combining extremely robust hardware and an outstanding software architecture.

Source: Company, ICICI Direct Research

Exhibit 2: EV components offering

Uno Minda's EV PRODUCT PORTFOLIO (2W & 3 W)



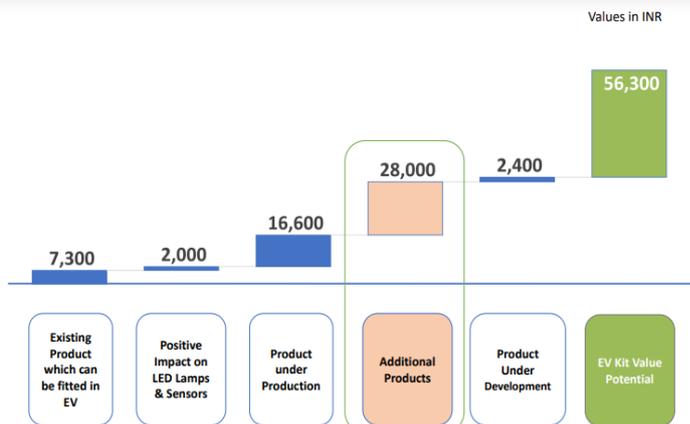
Low Voltage EV Products (48V to 72V)



Source: Company, ICICI Direct Research

Exhibit 3: Potential KIT value in EV 2-W

POTENTIAL EV KIT VALUE (2W)



Potential Kit value increased by Rs 28,000 with additional Products

11/17

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Net Sales	6373.7	8261.6	9785.4	11719.8	
Other Operating Income	0.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>6,373.7</b>	<b>8,261.6</b>	<b>9,785.4</b>	<b>11,719.8</b>	
Growth (%)	2.4	29.6	18.4	19.8	
Raw Material Expenses	3,919.3	5,208.7	6,164.8	7,354.2	
Employee Expenses	981.7	1,192.3	1,321.0	1,523.6	
Other Operating Expense	747.8	963.4	1,125.3	1,347.8	
Total Operating Expenditure	5,648.8	7,364.4	8,611.1	10,225.6	
<b>EBITDA</b>	<b>725.0</b>	<b>897.3</b>	<b>1,174.2</b>	<b>1,494.3</b>	
Growth (%)	7.9	23.8	30.9	27.3	
Depreciation	375.3	413.1	464.8	527.4	
Interest	73.7	57.6	56.2	35.2	
Other Income	47.0	33.6	32.6	45.3	
<b>PBT</b>	<b>323.1</b>	<b>460.2</b>	<b>685.9</b>	<b>977.0</b>	
Others	15.9	6.8	-11.1	-5.0	
Total Tax	100.5	140.8	205.8	293.1	
<b>PAT</b>	<b>206.6</b>	<b>312.6</b>	<b>491.2</b>	<b>688.9</b>	
Growth (%)	33.1	51.3	57.1	40.2	
<b>EPS (₹)</b>	<b>7.6</b>	<b>10.9</b>	<b>17.2</b>	<b>24.1</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	206.6	312.6	491.2	688.9	
Add: Depreciation	375.3	413.1	464.8	527.4	
(Inc)/dec in Current Assets	-512.6	-390.9	-479.5	-608.7	
Inc/(dec) in CL and Provisions	130.0	-139.9	315.6	399.3	
Others	73.7	57.6	56.2	35.2	
<b>CF from operating activities</b>	<b>273.0</b>	<b>252.4</b>	<b>848.3</b>	<b>1,042.0</b>	
(Inc)/dec in Investments	-127.6	-83.4	-180.0	-240.0	
(Inc)/dec in Fixed Assets	-276.4	-650.0	-604.0	-380.0	
Others	60.9	56.5	72.5	83.4	
<b>CF from investing activities</b>	<b>-343.1</b>	<b>-676.9</b>	<b>-711.5</b>	<b>-536.6</b>	
Issue/(Buy back) of Equity	1.9	2.7	0.0	0.0	
Inc/(dec) in loan funds	-147.9	-230.0	-20.0	-300.0	
Interest and Dividend outgo	-96.8	-86.1	-99.0	-92.3	
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>384.7</b>	<b>-119.0</b>	<b>-392.3</b>	
<b>Net Cash flow</b>	<b>-102.7</b>	<b>-39.8</b>	<b>17.8</b>	<b>113.1</b>	
Opening Cash	340.9	238.1	198.3	216.1	
<b>Closing Cash</b>	<b>238.1</b>	<b>198.3</b>	<b>216.1</b>	<b>329.1</b>	

Source: Company, ICICI Direct Research

Exhibit 6: 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	3,184.3	3,632.6	4,264.4	
<b>Total Shareholders funds</b>	<b>2256.5</b>	<b>3,241.4</b>	<b>3,689.8</b>	<b>4,321.5</b>	
Total Debt	1,052.4	822.4	802.4	502.4	
Deferred Tax Liability	29.9	29.9	29.9	29.9	
Minority Interest / Others	486.6	543.1	615.6	699.0	
<b>Total Liabilities</b>	<b>3825.4</b>	<b>4,636.8</b>	<b>5,137.7</b>	<b>5,552.8</b>	
<b>Assets</b>					
Gross Block	3,753.5	4,237.8	4,761.8	5,471.8	
Less: Acc Depreciation	1,238.4	1,651.5	2,116.3	2,643.7	
Net Block	2,515.1	2,586.3	2,645.5	2,828.1	
Capital WIP	134.3	300.0	380.0	50.0	
<b>Total Fixed Assets</b>	<b>2,649.4</b>	<b>2,886.3</b>	<b>3,025.5</b>	<b>2,878.1</b>	
Investments & Goodwill	811.9	895.3	1,075.3	1,315.3	
Inventory	750.6	905.4	1,072.4	1,284.4	
Debtors	1,198.8	1,358.1	1,608.6	1,926.5	
Loans and Advances	30.2	39.1	46.4	55.5	
Other Current Assets	229.3	297.2	352.0	421.6	
<b>Cash</b>	<b>238.1</b>	<b>198.3</b>	<b>216.1</b>	<b>329.1</b>	
Total Current Assets	2,447.0	2,798.1	3,295.4	4,017.2	
Current Liabilities	1,977.9	1,828.8	2,110.5	2,466.9	
Provisions	174.1	183.3	217.1	260.1	
Current Liabilities & Prov	2,152.0	2,012.1	2,327.7	2,727.0	
<b>Net Current Assets</b>	<b>295.0</b>	<b>786.0</b>	<b>967.7</b>	<b>1,290.2</b>	
Others Assets	69.1	69.1	69.1	69.1	
<b>Application of Funds</b>	<b>3,825.4</b>	<b>4,636.8</b>	<b>5,137.7</b>	<b>5,552.8</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	7.6	10.9	17.2	24.1	
Cash EPS	21.4	25.4	33.5	42.6	
BV	83.0	113.5	129.2	151.3	
DPS	0.9	1.0	1.5	2.0	
Cash Per Share (Incl Invst)	8.8	7.3	7.9	18.5	
<b>Operating Ratios (%)</b>					
EBITDA Margin	11.4	10.9	12.0	12.8	
PAT Margin	3.2	3.8	5.0	5.9	
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	
<b>Return Ratios (%)</b>					
RoE	9.2	9.6	13.3	15.9	
RoCE	9.1	10.4	13.8	17.4	
RoIC	10.1	11.7	15.7	19.4	
<b>Valuation Ratios (x)</b>					
P/E	134.2	93.2	59.3	42.3	
EV / EBITDA	41.3	33.2	25.3	19.5	
EV / Net Sales	4.7	3.6	3.0	2.5	
Market Cap / Sales	4.6	3.5	3.0	2.5	
Price to Book Value	12.3	9.0	7.9	6.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	1.5	0.9	0.7	0.3	
Debt / Equity	0.5	0.3	0.2	0.1	
Current Ratio	1.1	1.4	1.4	1.5	
<b>Quick Ratio</b>	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	

Source: Company, ICICI Direct Research

Exhibit 8: 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)	220	275	BUY	13,971	5.5	12.3	18.9	39.9	17.8	11.6	6.6	6.8	4.9	7.6	6.8	9.7	6.4	6.6	9.4
Ashok Leyland (ASHLEY)	130	175	Buy	38,052	-1.1	-0.3	3.8	-121.6	-471.9	33.8	76.5	46.7	15.9	-1.9	1.2	14.9	-4.4	-1.2	15.5
Bajaj Auto (BAAUTO)	3,340	4,220	Hold	96,650	157.4	164.9	191.3	21.2	20.3	17.5	15.2	14.5	12.2	18.2	18.9	22.0	18.1	18.6	21.1
Balkrishna Ind. (BALIND)	2,240	2,900	Buy	43,303	59.8	72.3	85.1	37.5	31.0	26.3	24.5	21.3	17.4	19.3	18.8	20.4	19.2	19.9	20.1
Bharat Forge (BHAFOR)	740	950	Buy	34,452	-2.7	18.8	26.4	NM	39.3	28.0	42.8	18.8	15.0	2.2	10.2	13.1	3.3	15.0	17.4
Eicher Motors (EICMOT)	2,520	3,050	Buy	68,872	49.3	66.9	100.6	51.1	37.7	25.0	34.4	25.0	16.8	11.3	14.7	19.1	11.8	14.4	18.6
Escorts (ESCORT)	1,860	1,900	Buy	22,800	71.2	71.0	84.0	26.1	26.2	22.1	17.6	17.7	14.6	18.7	15.7	16.0	16.2	14.1	14.6
Hero Moto (HERHON)	2,522	3,070	Hold	50,364	148.4	147.8	192.2	17.0	17.1	13.1	10.4	10.4	7.7	20.8	19.1	23.1	19.5	17.7	20.8
M&M (MAHMAH)	860	1,125	Buy	1,06,915	2.3	35.3	40.5	382.0	24.4	21.3	16.0	15.3	12.8	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
<b>Minda Industries (MININD)</b>	<b>1,020</b>	<b>1,060</b>	<b>Hold</b>	<b>29,132</b>	<b>7.6</b>	<b>10.9</b>	<b>17.2</b>	<b>134.2</b>	<b>93.2</b>	<b>59.3</b>	<b>41.3</b>	<b>33.2</b>	<b>25.3</b>	<b>9.1</b>	<b>10.4</b>	<b>13.8</b>	<b>9.2</b>	<b>9.6</b>	<b>13.3</b>
Motherson (MOTSUM)	230	280	Hold	72,632	3.3	4.3	8.5	NM	53.0	27.0	16.0	13.6	8.9	6.7	9.3	18.5	8.8	10.3	18.3
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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