

24 May 2022

Minda Industries

Strong business outlook, capacity expansion; upgrading to a Buy

Consistent growth in its order book and robust demand for 2- and 4-wheelers led to Minda Industries' strong revenue. The recent commissioning of assembly lines for alloy wheels on further orders augur well for its growth. Supply constraints are expected to normalise in ensuing quarters; accordingly we expect strong demand from 2- and 4-Ws. We upgrade our rating to Buy at a TP of Rs1,106 (40x FY24e)

Businesses won. Q4 FY22 revenues grew 8% y/y, 11% q/q, to Rs24.1bn, on strong demand in 4-W and 2-W sales despite semiconductor shortages curbing off-take. The company won orders of Rs4bn (~Rs7bn in 6M FY22). In switches, it received further orders along with export orders for Italian 2-W OEMs. Also, it would expand capacity for 4-W switches in Chennai for orders from Japanese and Korean OEMs. In lightings, it received a large order from domestic and international OEMs for LEDs and tail lamps. In castings, the added capacity for alloy wheels is expected to come in subsequent quarters. In seatings, it received orders from an Indian and a European OEM. In EVs, it continues to develop EV-specific products (battery-management systems, control modules, chargers, etc.); the average kit value is ~Rs18,500. On the expansion front, it is adding capacity at its Hanoi and Chennai plants for 2-W and 4-W switches on added orders at respectively Rs370m and Rs730m capex,. This, in our view, augurs well for its long-term growth. Accordingly, we expect 25% growth in FY23 and 20% in FY24.

Margin expansion in the next two years. The Q4 FY22 11.4% margin (10.7% in FY22) expanded 62bps sequentially despite high RM prices. We expect RM prices to normalise in subsequent quarters and margins to expand on greater volumes of high-margin products. Hence, we expect margins of 11.1% in FY23 and 11.7% in FY24.

Valuation. We expect a 22% revenue CAGR over FY22-24, and 47% in earnings, leading to Rs27.6 EPS. We upgrade our rating to Buy at a revised TP of Rs1,106 (40x FY24e).

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rsm)	62,220	63,737	83,130	103,804	124,362
Net profit (Rsm)	1,896	2,049	3,659	5,373	7,895
EPS (Rs)	5.9	7.9	12.8	18.8	27.6
PE (x)	140.8	105.7	65.2	44.4	30.2
EV / EBITDA (x)	33.2	30.7	24.8	18.9	14.9
PBV (x)	11.6	9.6	6.3	5.5	4.7
RoE (%)	8.8	11.0	12.8	14.6	18.5
RoCE (%)	8.2	8.4	10.0	12.4	15.9
Dividend yield (%)	0.2	0.2	0.2	0.2	0.4
Net debt/equity (x)	0.3	0.2	0.1	0.0	0.0

Source: Company, Anand Rathi Research

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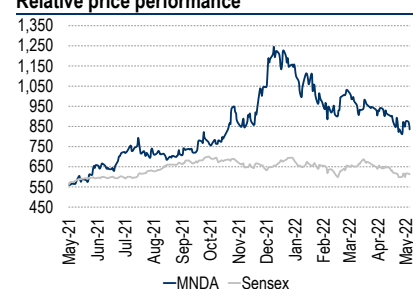
Rating: **Buy**
Target Price: Rs.1,106
Share Price: Rs.836

Key data	MNDA IN / MNDA BO
52-week high / low	Rs.1260 / 562
Sensex / Nifty	54053 / 16125
3-m average volume	\$4.1m
Market cap	Rs.239bn / \$3075.2m
Shares outstanding	286m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	67.5	67.5	67.5
- of which, Pledged	-	-	-
Free Float	32.5	32.5	32.5
- Foreign Institutions	9.8	9.9	9.2
- Domestic Institutions	12.1	13.1	13.7
- Public	10.6	9.5	9.6

Estimates revision (%)	FY22	FY23
Sales	2.8	2.7
EBITDA	0.1	-2.3
PAT	7.1	-1.5

Relative price performance



Source: Bloomberg

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	62,220	63,737	83,130	103,804	124,362
Growth (%)	5.3	2.4	30.4	24.9	19.8
Direct costs	38,103	39,193	52,720	62,075	73,622
SG&A	17,400	17,295	21,556	30,207	36,189
EBITDA	6,718	7,250	8,854	11,522	14,550
EBITDA margins (%)	10.8	11.4	10.7	11.1	11.7
- Depreciation	3,401	3,753	3,918	4,013	4,461
Other income	405	470	629	696	687
Interest expenses	942	737	623	562	516
Extraordinary items	-345	17	-	-	-
PBT	2,436	3,248	4,943	7,643	10,260
Effective tax rate (%)	28	31	30	31	25
+ Associates / (Minorities)	198	176	-184	-100	-200
Net income	1,552	2,066	3,659	5,373	7,895
Adjusted income	1,896	2,049	3,659	5,373	7,895
WANS	261	261	286	286	286
FDEPS (Rs/ sh)	5.9	7.9	12.8	18.8	27.6

Fig 2 – Balance sheet (Rsm)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	524	544	571	571	571
Networth	18,611	22,566	34,385	39,221	46,326
Debt	10,183	8,529	5,159	4,659	4,159
Minority interest	2,828	3,065	3,263	3,163	2,963
DTL/(Assets)	410	299	624	624	624
Capital employed	32,032	34,459	43,431	47,667	54,072
Net tangible assets	19,109	20,507	20,527	22,514	24,053
Net intangible assets	3,114	2,895	2,848	2,848	2,848
Goodwill	2,860	2,817	2,840	2,840	2,840
CWIP (tang. &intang.)	3,400	1,119	3,353	3,353	3,353
Investments (strategic)	3,734	5,286	5,946	11,446	11,446
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	20,182	24,769	30,123	33,438	40,768
Cash	3,409	2,382	2,342	2,918	3,401
Current liabilities	23,776	25,316	24,548	31,690	34,636
Working capital	-3,594	-547	5,575	1,749	6,132
Capital deployed	32,032	34,459	43,431	47,667	54,072

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	2,436	3,248	4,943	7,643	10,260
+ Non-cash items	3,019	3,753	3,918	4,013	4,461
Oper. prof. before WC	5,455	7,001	8,860	11,656	14,721
- Incr./ (decr.) in WC	-4,576	-471	6,122	-3,826	4,383
Others incl. taxes	775	1,005	1,468	2,369	2,565
Operating cash-flow	9,256	6,467	1,270	13,113	7,773
- Capex (tang. +intang.)	7,078	6,919	6,147	6,000	6,000
Free cash-flow	2,178	-452	-4,877	7,113	1,773
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	330	500	428	537	789
+ Equity raised	-	20	27	-	-
+ Debt raised	420	-1,446	-3,370	-500	-500
- Fin investments	166	1,565	660	5,500	-
- Misc. (CFI + CFF)	-206	-2,915	-9,269	0	-
Net cash-flow	2,309	-1,027	-40	575	483

Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	140.8	105.7	65.2	44.4	30.2
EV / EBITDA (x)	33.2	30.7	24.8	18.9	14.9
EV / Sales (x)	3.6	3.5	2.6	2.1	1.7
P/B (x)	11.6	9.6	6.3	5.5	4.7
RoE (%)	8.8	11.0	12.8	14.6	18.5
RoCE (%) - after tax	8.2	8.4	10.0	12.4	15.9
RoIC (%) - after tax	8.8	9.3	10.7	13.2	16.9
DPS (Rs / sh)	1.3	1.9	1.6	2.1	3.0
Dividend yield (%)	0.2	0.2	0.2	0.2	0.4
Dividend payout (%) - incl. DDT	21.2	24.2	11.7	10.0	10.0
Net debt / equity (x)	0.3	0.2	0.1	0.0	0.0
Receivables (days)	49	69	60	55	55
Inventory (days)	62	70	72	70	80
Payables (days)	107	120	98	125	120
CFO : PAT %	488.1	315.6	34.7	244.0	98.5

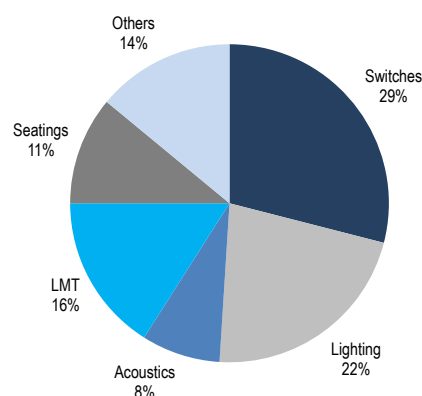
Source: Company, AnandRathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – FY22 revenue mix, by segment



Source: Company

Result highlights

Fig 7 –Quarterly performance

(Rsm)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Net sales	13,596	13,268	14,978	4,679	16,322	20,312	22,383	16,026	21,140	21,814	24,151
YY %	-10.7	-9.7	0.0	-67.5	20.1	53.1	49.4	284.2	29.5	7.4	7.9
Q/Q%	-5.6	-2.4	12.9	-68.8	248.9	24.4	10.2	-28.4	31.9	3.2	10.7
Decr. /(incr.) in stock-in-trade, WIP	(146)	(104)	1,817	399	1,269	2,029	1,666	1,047	2,605	2,552	3,850
Raw materials & components	6,500	6,587	7,188	2,078	8,920	10,830	12,737	8,730	11,226	11,980	11,542
Purchase of traded goods	1,794	1,471	40	286	(235)	(464)	(360)	43	(425)	(513)	83
Total raw material cost	8,147	7,954	9,045	2,763	9,954	12,396	14,044	9,820	13,406	14,020	15,475
Gross margins (%)	40.1	40.1	39.6	41.0	39.0	39.0	37.3	38.7	36.6	35.7	35.9
Employee cost	2,084	2,089	2,352	1,859	2,269	2,724	2,965	2,762	3,025	2,954	3,325
Other expenditure	1,749	1,592	2,182	901	1,815	2,403	2,358	1,977	2,430	2,488	2,597
Total Expenditure	11,980	11,635	13,579	5,522	14,038	17,523	19,367	14,559	18,861	19,461	21,396
EBITDA	1,616	1,634	1,399	(844)	2,284	2,789	3,016	1,467	2,279	2,353	2,755
EBITDA margins %	11.9	12.3	9.3	-18.0	14.0	13.7	13.5	9.2	10.8	10.8	11.4
YY %	-14.6	-9.5	-240.2	-149.0	41.3	11.5	115.6	-273.9	-0.2	-15.6	-62.0
Depreciation	740	751	895	774	904	1,004	1,072	905	968	942	1,103
Operating Profit/EBIT	877	883	504	(1,618)	1,380	1,785	1,944	562	1,311	1,411	1,652
EBIT margins %	6.4	6.7	3.4	-34.6	8.5	8.8	8.7	3.5	6.2	6.5	6.8
Other income	51	113	140	62	158	166	89	61	211	125	232
Profit before int. and excep. items	927	996	644	(1,556)	1,538	1,951	2,033	624	1,521	1,537	1,884
Interest expenses (net)	238	216	220	199	187	200	151	185	177	127	135
Profit after int. and excep. items	689	780	425	(1,755)	1,351	1,752	1,882	438	1,345	1,410	1,750
Exceptional items	-	(52)	(89)	-	-	-	17	-	-	-	-
Profit before tax	689	729	336	(1,755)	1,351	1,752	1,900	438	1,345	1,410	1,750
Total tax expense	172	194	147	(405)	452	474	476	139	423	423	483
Effective tax rate %	24.9	26.6	43.7	23.1	33.4	27.1	25.1	31.8	31.4	30.0	27.6
Net profit after tax	517	535	189	(1,349)	900	1,277	1,424	299	922	987	1,267
Net profit margins %	3.8	4.0	1.3	-28.8	5.5	6.3	6.4	1.9	4.4	4.5	5.2
YY %	-38.6	-32.7	-112.6	-339.1	73.9	139.0	652.8	-122.2	2.5	-22.7	-43.5
Less: Share of (profit)/loss from asso.	(63.5)	(10.0)	2.8	(162.1)	(100.2)	(88.7)	(214.9)	(50.3)	(212.3)	(194.8)	(294.8)
Less: Minority interest	87	98	55	(166)	136	212	235	95	187	169	118
Net profit	494	447	131	(1,345)	864	1,154	1,403	154	947	1,013	1,444
Net profit margin %	3.6	3.4	0.9	-28.7	5.3	5.7	6.3	1.0	4.5	4.6	6.0
YY %	-32.0	-28.2	-84.1	-372.0	74.8	-25.5	530.2	-111.5	-12.6	-12.2	-30.1
Basic/Diluted EPS (adjusted)	1.9	1.9	0.8	(5.1)	3.2	4.2	5.1	0.5	3.3	3.5	5.1

Source: Company

Valuations

We expect a 22% revenue CAGR over FY22-24, and 47% in earnings, leading to Rs27.6 EPS. We upgrade our rating to Buy at a revised TP of Rs1,106 (40x FY24e).

Fig 8 – Estimates revision

(Rsm)	Old estimates		Revised estimates		Change (%)	
	FY23	FY24	FY23	FY24	FY23	FY24
Revenue	100,988	121,056	103,804	124,362	2.8	2.7
EBITDA	11,513	14,890	11,522	14,550	0.1	-2.3
Adj. PAT	5,015	8,012	5,373	7,895	7.1	-1.5
EPS (Rs)	18.4	29.5	18.8	27.6	2.0	-6.2

Source: Anand Rathi Research

Fig 9 – One-year-forward Standard deviation band



Source: Bloomberg

Risk

- Less-than-estimated growth in OEMs.

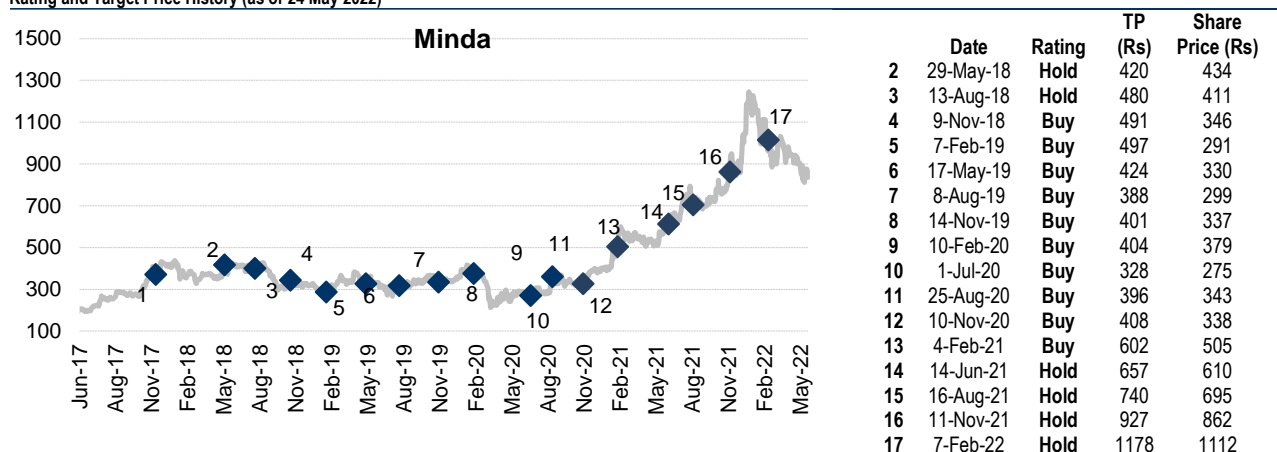
Appendix

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