

## Recent price correction offers opportune time to enter

**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.

- FY22 segment mix – 4-W 53%, 2-W 47%; switches, lighting, castings, horns and seats comprised 30%, 21%, 16%, 8% and 11% of sales, respectively
- History of vast outperformance vs. user industries riding on growth in kit value, new client and product additions & inorganic acquisitions

**Q4FY22 Results:** The company posted healthy Q4FY22 results.

- Consolidated revenues were at ₹ 2,415 crore, up 10.7% QoQ
- EBITDA margins for the quarter came in at 11.4%, up 60 bps QoQ
- Consolidated PAT in Q4FY22 was at ₹ 144.4 crore, up 42.5% QoQ

**What should investors do?** MIL's has been one of our early finds with stock price nearly 4x since our initiation in April 2020, vastly outperforming the Nifty Auto index.

- Given the recent correction in stock price, MIL is now within our comfortable valuation matrix. Hence, we upgrade the stock from HOLD to **BUY**.

**Target Price and Valuation:** We value the company at a revised target price of ₹ 1,050 i.e. 42x P/E (~1x PEG) on FY24E EPS of ₹ 25 (previous target ₹ 1,115).

**Key triggers for future price performance:**

- We build 15.7% FY22-24E net sales CAGR riding on OEM ramp up, focus on premiumisation, expanded capacity, penchant to grow ahead of industry
- Minimal EV risk; actively working on EV-specific products
- Increasing share of new age products (sensors, alloy wheels, airbags, etc)
- Mix, operating leverage to push margins, RoCE to 12.5%, 15.9% (FY24E)
- B/s strength, with FY22 debt: equity at 0.2x. We expect gross debt to have peaked out with organic growth to be funded through internal accruals

**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 ₹ 250



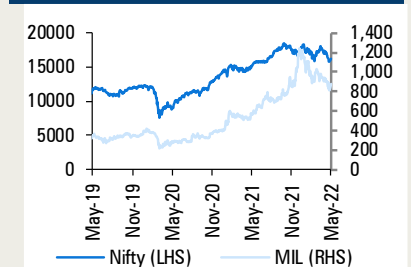
### Particulars

Particulars	Amount
Market capitalisation (₹ crore)	25,133
Total Debt (FY22P, ₹ crore)	816
Cash & Inv. (FY22P, ₹ crore)	246
EV (₹ crore)	25,702
52 week H/L (₹)	1257 / 562
Equity capital (₹ crore)	57.1
Face value (₹)	2.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	69.8	67.5	67.5	67.5
FII	9.0	9.2	9.9	9.8
DII	10.9	13.7	13.1	13.2
Other	10.3	9.6	9.5	9.6

### Price Chart



### Recent event & key risks

- Post healthy Q4FY22 results.
- Key Risk:** (i) Slower than anticipated pickup in sales across its OEM clients, (ii) Muted margin amid high input costs

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	5,908.1	6,222.0	6,373.7	8,313.0	19.1%	9,692.1	11,123.4	15.7%
EBITDA	725.2	671.8	725.0	885.4	18.2%	1,138.8	1,390.4	25.3%
EBITDA Margins (%)	12.3	10.8	11.4	10.7		11.8	12.5	
Net Profit	285.6	155.2	206.6	355.8	16.2%	546.6	713.1	41.6%
EPS (₹)	10.9	5.9	7.6	12.5		19.1	25.0	
P/E	80.8	148.7	115.8	70.6		46.0	35.2	
RoNW (%)	19.0	8.3	9.2	10.3		13.9	15.6	
RoCE (%)	15.7	9.3	9.1	10.2		13.1	15.9	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Handsome beat on all fronts

- Consolidated EBITDA for Q4FY22 was a ₹ 275.5 crore with attendant margins up 60 bps QoQ at 11.4%. Gross margin expanded ~20 bps QoQ with substantial savings realised under other expenses, which were down ~60 bps on a QoQ basis
- Reported consolidated PAT for the quarter was at ₹ 144.4 crore, up 42.5% QoQ. Profitability beat was aided by higher other income as well as higher profit from associates
- The company declared a final dividend of ₹ 1 per share for FY22 with total dividend for FY22 pegged at ₹ 1.5/share. The board has also approved bonus issue of equity shares in the ratio of 1:1 with record date for the same being fixed as June 10, 2022

### Q4FY22 Earnings Conference Call highlights

- The quarterly performance was primarily led by the PV segment whereas 2-W continued to be affected by sluggish demands. Further margins remained under pressure due to elevated input prices but with premiumisation the company was able to improve upon the same
- On the supply chain front, disruption is easing up but is expected to persist for a further two to three quarters. The company is cautiously optimistic on the demand prospects amid improving semiconductor supply, benefitting the PV segment
- MIL had applied for Auto PLI scheme for sensors, ADAS, controllers & EV specific products (e.g. BMS, Charger) and has been approved for the same
- The company is witnessing good traction in EV OEMs amid a sharp uptick in monthly run rate in E-2-W sales. The company is focusing on deeper penetration among existing EV clients. It has also received orders for battery chargers, which are jointly developed by FRIWO
- Depreciation remained higher due to higher utilisation level & capitalisation of expense. Further employee cost rise was due to onetime expense of ~₹ 15 crore booked as Esop expense
- The company has acquired additional stake partnerships to consolidate the same with various associates entity turning green causing profit from associate to rise QoQ. The management expects this run rate to continue, going forward
- The management has received order for switches from Japanese 4-W OEM and plans to establish additional facility with capex of ~₹ 73 crore to be operationalise by March 23. Further the management informed about potential rise in kit value to extend of 5-20% due to premiumisation
- Revenue for Mindarika was at ~₹ 830 crore in FY22 vs. ₹ 630 crore in FY21
- Revenue from 2-W alloy segment is ~₹ 90 crore (during Q4FY22) with ~₹ 280 crore in FY22. The 4-W alloy wheels topline for Q4FY22 was at ₹ 250 crore with total for year at ₹ 800 crore
- Capex spend for FY23 is planned around ~₹ 550-600 crore including ₹ 37 crore for expansion of Indonesian plant & ₹73 crore for Mindarika expansion. Out of total ~₹ 260 crore would be for maintenance
- Sensors, controllers, telematics combined revenue for FY22 were at ~₹ 220 crore. At the company level, margins are expected to remain in a range of 11-12%, going forward, supported by alloy wheels' division where margins are higher than group margins on a consolidated basis

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY%	Q3FY22	QoQ%	Comments
Total Operating Income	2,415.1	2,339.0	2,238.3	7.9	2,181.4	10.7	Topline came in ahead of estimates and was up 10.7% QoQ at ₹ 2,415 crore
Raw Material Expenses	1,547.5	1,512.2	1,404.4	10.2	1,402.0	10.4	Savings were realised on the RM costs front and were down 20 bps QoQ at 64.1% of sales
Employee Expenses	332.5	309.9	296.5	12.1	295.4	12.6	
Other Expenses	259.7	264.3	235.8	10.1	248.8	4.4	Other expenses were also down 60 bps QoQ at 10.8% of sales amidst operating leverage benefits at play
EBITDA	275.5	252.6	301.6	-8.7	235.3	17.1	
EBITDA Margin (%)	11.4	10.8	13.5	-207 bps	10.8	62 bps	EBITDA margins came in ahead of estimates at 11.4% of sales, up 60 bps QoQ
Depreciation	110.3	97.4	107.2	2.9	94.2	17.1	
Interest	13.5	12.2	15.1	-10.9	12.7	6.3	
Other Income	23.2	10.5	8.9	160.8	12.5	85.2	Other income came in higher than anticipated
PBT (before exceptional)	175.0	153.5	188.3	-7.1	141.0	24.1	
Total Tax	48.3	46.0	47.6	1.4	42.3	14.1	
Reported PAT	144.4	109.9	140.4	2.9	101.3	42.5	Reported PAT came in much higher than our estimates tracking beat on margins, higher other income as well as higher profit from associates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9,563	9,692	1.3	11,136	11,123	-0.1	Broadly maintained our estimates. We expect revenues at the company to grow at a CAGR of 15.7% over FY22-24E
EBITDA	1,100	1,139	3.5	1,420	1,390	-2.1	
EBITDA Margin (%)	11.5	11.8	25 bps	12.8	12.5	-25 bps	Altered margin estimates tracking outperformance in Q4FY22. We expect margins at the company to remain in the tight range of 11.5-13%
PAT	489	547	11.8	692	713	3.1	
EPS (₹)	17.1	19.1	11.8	24	25	3.1	Broadly maintained our estimates. We expect PAT the company to grow at a CAGR of 41.6% over FY22-24E

Source: ICICI Direct Research

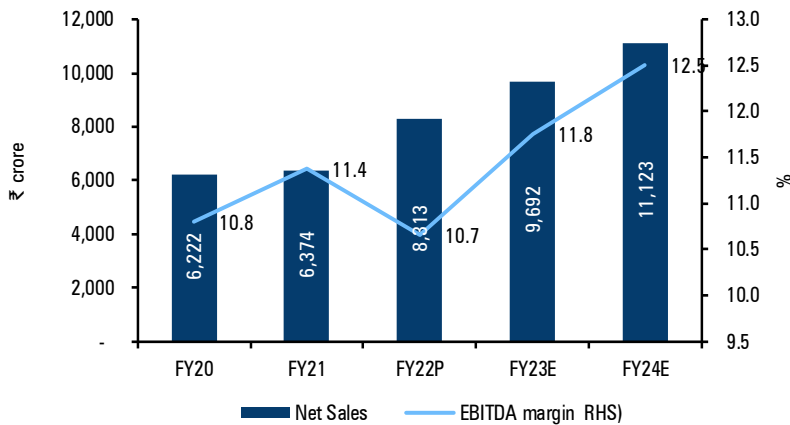
Exhibit 3: Assumptions

(₹ crore)	Current					Earlier		Comments
	FY20	FY21	FY22P	FY23E	FY24E	FY23E	FY24E	
Switches	2,014	1,814	2,455	2,848	3,190	2,804	3,084	With strong penchant to increase content/vehicle as well as capacity expansion under way in the alloy wheel business we expect the company to retain industry leading growth thereby outperforming the underlying OEM volume growth (served segments) over FY22-24E
Lighting	1,223	1,417	1,787	2,072	2,321	2,090	2,299	
Acoustics	653	607	647	712	783	680	748	
LMT	781	748	1,365	1,638	2,085	1,589	2,029	
Others	1,551	1,788	2,059	2,422	2,745	2,400	2,975	
<b>Total Sales</b>	6,222	6,374	8,313	9,692	11,123	9,563	11,135	

Source: ICICI Direct Research

## Financial story in charts

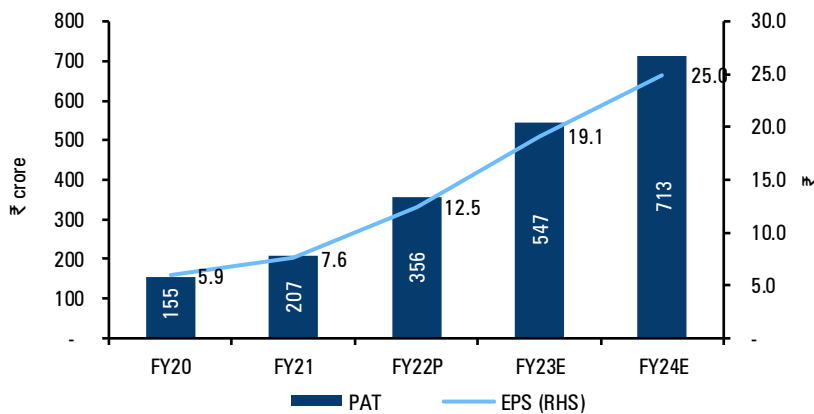
Exhibit 4: Topline and margin trend



Source: Company, ICICI Direct Research

We expect sales to grow at a CAGR of 15.7% over FY22-24E with EBITDA margins set to improve to 12.5% by FY24E

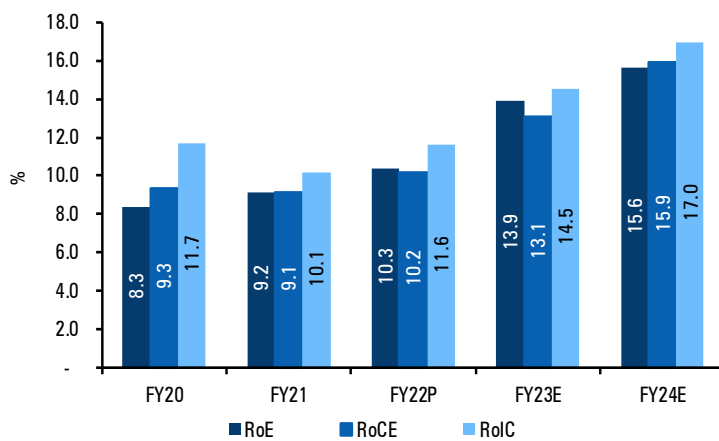
Exhibit 5: Trend in PAT and EPS



Source: Company, ICICI Direct Research

We expect MIL to report an EPS of ₹ 19.1 in FY23E and ₹ 25 in FY24E

Exhibit 6: Trend in return ratios



Source: Company, ICICI Direct Research

The company is seen reporting double-digit return ratio territory from FY23E

Exhibit 7: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	5,908	32.2	10.9	(7.9)	80.8	36.0	19.0	15.7
FY20	6,222	5.3	5.9	(45.7)	148.7	38.7	8.3	9.3
FY21	6,374	2.4	7.6	28.3	115.8	35.8	9.2	9.1
FY22P	8,313	30.4	12.5	64.0	70.6	29.0	10.3	10.2
FY23E	9,692	16.6	19.1	53.6	46.0	22.4	13.9	13.1
FY24E	11,123	14.8	25.0	30.5	35.2	18.1	15.6	15.9

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Net Sales	6373.7	8313.0	9692.1	11123.4	
Other Operating Income	0.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>6,373.7</b>	<b>8,313.0</b>	<b>9,692.1</b>	<b>11,123.4</b>	
Growth (%)	2.4	30.4	16.6	14.8	
Raw Material Expenses	3,919.3	5,272.0	6,178.7	7,063.4	
Employee Expenses	981.7	1,206.5	1,308.4	1,446.0	
Other Operating Expense	747.8	949.1	1,066.1	1,223.6	
Total Operating Expenditure	5,648.8	7,427.6	8,553.3	9,733.0	
<b>EBITDA</b>	<b>725.0</b>	<b>885.4</b>	<b>1,138.8</b>	<b>1,390.4</b>	
Growth (%)	7.9	22.1	28.6	22.1	
Depreciation	375.3	391.8	450.7	500.6	
Interest	73.7	62.3	57.3	29.3	
Other Income	47.0	62.9	54.0	60.5	
<b>PBT</b>	<b>323.1</b>	<b>494.3</b>	<b>684.9</b>	<b>921.1</b>	
Others	15.9	-8.3	-67.1	-68.3	
Total Tax	100.5	146.8	205.5	276.3	
<b>PAT</b>	<b>206.6</b>	<b>355.8</b>	<b>546.6</b>	<b>713.1</b>	
Growth (%)	33.1	72.2	53.6	30.5	
<b>EPS (₹)</b>	<b>7.6</b>	<b>12.5</b>	<b>19.1</b>	<b>25.0</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Profit after Tax	206.6	355.8	546.6	713.1	
Add: Depreciation	375.3	391.8	450.7	500.6	
(Inc)/dec in Current Assets	-512.6	-526.7	-416.9	-465.6	
Inc/(dec) in CL and Provisions	130.0	34.2	239.5	300.2	
Others	73.7	62.3	57.3	29.3	
<b>CF from operating activities</b>	<b>273.0</b>	<b>317.3</b>	<b>877.1</b>	<b>1,077.6</b>	
(Inc)/dec in Investments	-127.6	-78.8	-62.9	-50.0	
(Inc)/dec in Fixed Assets	-276.4	-609.5	-600.0	-600.0	
Others	60.9	39.9	34.9	40.8	
<b>CF from investing activities</b>	<b>-343.1</b>	<b>-648.5</b>	<b>-628.0</b>	<b>-609.2</b>	
Issue/(Buy back) of Equity	2.0	2.7	0.0	0.0	
Inc/(dec) in loan funds	-147.9	-236.5	-100.0	-350.0	
Interest and Dividend outgo	-96.8	-105.2	-114.4	-100.7	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	210.0	666.1	0.0	0.0	
<b>CF from financing activities</b>	<b>-32.7</b>	<b>327.2</b>	<b>-214.4</b>	<b>-450.7</b>	
<b>Net Cash flow</b>	<b>-102.7</b>	<b>-4.0</b>	<b>34.7</b>	<b>17.7</b>	
Opening Cash	340.9	238.1	234.1	268.8	
<b>Closing Cash</b>	<b>238.1</b>	<b>234.1</b>	<b>268.8</b>	<b>286.4</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	54.4	57.1	57.1	57.1	
Reserve and Surplus	2,202.2	3,381.3	3,870.7	4,512.4	
<b>Total Shareholders funds</b>	<b>2,256.6</b>	<b>3,438.4</b>	<b>3,927.8</b>	<b>4,569.5</b>	
Total Debt	1,052.4	815.9	715.9	365.9	
Deferred Tax Liability	29.9	62.4	62.4	62.4	
Minority Interest / Others	486.6	528.8	563.6	604.4	
<b>Total Liabilities</b>	<b>3825.4</b>	<b>4,845.5</b>	<b>5,269.8</b>	<b>5,602.3</b>	
<b>Assets</b>					
Gross Block	3,753.5	4,150.8	4,867.3	5,647.3	
Less: Acc Depreciation	1,238.4	1,630.2	2,080.8	2,581.4	
Net Block	2,515.1	2,520.7	2,786.5	3,065.9	
Capital WIP	134.3	346.5	230.0	50.0	
<b>Total Fixed Assets</b>	<b>2,649.4</b>	<b>2,867.2</b>	<b>3,016.5</b>	<b>3,115.9</b>	
Investments & Goodwill	811.9	890.7	953.7	1,003.7	
Inventory	750.6	1,046.4	1,194.9	1,371.4	
Debtors	1,198.8	1,376.7	1,593.2	1,828.5	
Loans and Advances	30.2	26.0	30.3	34.7	
Other Current Assets	229.3	286.6	334.1	383.4	
<b>Cash</b>	<b>238.1</b>	<b>234.1</b>	<b>268.8</b>	<b>286.4</b>	
Total Current Assets	2,447.0	2,969.7	3,421.3	3,904.5	
Current Liabilities	1,977.9	1,836.6	2,056.8	2,332.1	
Provisions	174.1	149.6	168.8	193.8	
Current Liabilities & Prov	2,152.0	1,986.2	2,225.6	2,525.8	
<b>Net Current Assets</b>	<b>295.0</b>	<b>983.6</b>	<b>1,195.7</b>	<b>1,378.7</b>	
Others Assets	69.1	104.0	104.0	104.0	
<b>Application of Funds</b>	<b>3,825.4</b>	<b>4,845.5</b>	<b>5,269.8</b>	<b>5,602.3</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		FY21	FY22P	FY23E	FY24E
<b>Per share data (₹)</b>					
EPS		7.6	12.5	19.1	25.0
Cash EPS		21.4	26.2	34.9	42.5
BV		83.0	120.4	137.5	160.0
DPS		0.9	1.5	2.0	2.5
Cash Per Share (Incl Invst)		8.8	8.6	10.3	10.9
<b>Operating Ratios (%)</b>					
EBITDA Margin		11.4	10.7	11.8	12.5
PAT Margin		3.2	4.3	5.6	6.4
Inventory days		43.0	45.9	45.0	45.0
Debtor days		68.7	60.4	60.0	60.0
Creditor days		73.9	62.0	60.0	60.0
<b>Return Ratios (%)</b>					
RoE		9.2	10.3	13.9	15.6
RoCE		9.1	10.2	13.1	15.9
RoIC		10.1	11.6	14.5	17.0
<b>Valuation Ratios (x)</b>					
P/E		115.8	70.6	46.0	35.2
EV / EBITDA		35.8	29.0	22.4	18.1
EV / Net Sales		4.1	3.1	2.6	2.3
Market Cap / Sales		3.9	3.0	2.6	2.3
Price to Book Value		10.6	7.3	6.4	5.5
<b>Solvency Ratios</b>					
Debt/EBITDA		1.5	0.9	0.6	0.3
Debt / Equity		0.5	0.2	0.2	0.1
Current Ratio		1.1	1.5	1.6	1.6
<b>Quick Ratio</b>		<b>0.7</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP	Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Apollo Tyre (APOTYR)	213	250	Buy	13,549	10.1	14.7	20.8	21.2	14.5	10.3	7.0	5.8	4.6	6.3	8.1	10.6	5.5	7.5	9.9
Ashok Leyland (ASHLEY)	142	160	Buy	41,506	1.8	2.1	4.6	76.8	68.9	30.7	42.4	24.0	14.9	2.1	8.5	17.0	0.2	7.9	16.2
Bajaj Auto (BAAUTO)	3,760	3,950	Hold	1,08,812	173.4	183.4	204.1	21.7	20.5	18.4	16.3	14.5	12.9	18.4	19.9	21.6	17.6	19.1	20.5
Balkrishna Ind. (BALIND)	2,123	2,475	Buy	41,049	73.0	81.4	103.2	29.1	26.1	20.6	21.7	17.5	13.7	15.9	18.0	21.7	20.4	19.4	20.7
Bharat Forge (BHAFOR)	668	840	Buy	31,112	23.1	23.9	30.0	28.9	28.0	22.3	17.0	14.9	12.5	9.6	10.7	12.6	15.2	15.1	16.8
Eicher Motors (EICMOT)	2,674	2,480	Hold	73,079	61.3	87.6	107.2	43.6	30.5	24.9	29.8	21.1	17.1	13.3	17.3	18.7	13.3	16.9	18.2
Escorts (ESCORT)	1,577	1,840	Hold	20,809	55.8	70.1	82.2	28.3	22.5	19.2	16.8	13.7	11.2	10.4	10.9	11.5	9.3	10.6	11.2
Hero Moto (HERHON)	2,652	2,495	Hold	52,969	123.8	156.1	176.3	21.4	17.0	15.0	13.3	10.4	9.1	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	936	1,045	Buy	1,16,364	40.5	46.7	56.5	23.1	20.1	16.6	16.0	13.2	11.0	9.8	11.5	13.1	13.4	13.2	14.3
Maruti Suzuki (MARUTI)	7,745	8,545	Hold	2,33,969	124.7	206.4	284.8	62.1	37.5	27.2	33.9	21.5	15.7	5.1	9.5	12.8	7.0	10.7	13.5
<b>Minda Industries (MININD)</b>	<b>880</b>	<b>1,050</b>	<b>Buy</b>	<b>25,133</b>	<b>12.5</b>	<b>19.1</b>	<b>25.0</b>	<b>70.6</b>	<b>46.0</b>	<b>35.2</b>	<b>29.0</b>	<b>22.4</b>	<b>18.1</b>	<b>10.2</b>	<b>13.1</b>	<b>15.9</b>	<b>10.3</b>	<b>13.9</b>	<b>15.6</b>
Tata Motors (TATMOT)	422	500	Buy	1,61,450	-29.9	1.7	21.1	-14.1	251.9	20.0	7.0	5.7	4.2	4.8	8.1	13.7	-23.4	1.3	14.0

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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