

Industry Auto Ancillary
Bloomberg MINDA IN
BSE CODE 532539

Continues to outpace industry

RATING	BUY
CMP	346
Price Target	405
Potential Upside	17%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	455/282
Mkt Capital (Rs Cr)	9082
Free float (%)	29%
Avg. Vol 1M (,000)	282
No. of Shares (Cr.)	26
Promoters Pledged %	0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

Swati Singh

Swati.singh@narnolia.com

+91-22-62701224

Key Highlights

- MINDAIND is the market leader in automotive switches and horns while 3rd largest player in automotive lamps in India. MINDAIND has been consistently outperforming the auto component industry with Revenue and PAT CAGR of 25% and 50% over FY12-18.
- The company is planning to expand in sensors business, for which the plant is supposed to get commissioned by April 2019. The revenue opportunity from this plant is expected to be Rs.450 crores in next 3-4 years.
- The company is setting up a 2 wheeler alloy wheel plant in Maharashtra with capital outlay of Rs.300 crores. The plant is expected to commence production from 4QFY20 with revenue potential of Rs.450-500 crores.
- The company is also setting up a new plant for controller and Telematics for a total capex of Rs. 80 crores over next 12 months and will be targeting sales of Rs. 300 crores in next 3 years.

2Q FY19 Result Update

The company posted a healthy revenue growth of 39% YoY to Rs.1522 crores. The growth was mainly attributed to good revenue earned across various business divisions namely; switch business (75%), lamps (9%), horns and acoustics (7%) and other business (44%). EBITDA margin has also expanded by 50bps QoQ to 12.4% primarily led by operating leverage benefit. PAT for the quarter stood at Rs. 89 crores with 21% YoY growth.

View and Valuation

MINDAIND has reported stellar quarterly performance with 39%YoY revenue growth. Rising commodity cost pressure was offset by operating leverage and increasing premium products demand. The management expects group restructuring to complete by 4QFY19 and there will be organic growth only after then which may result some softness in margin expansion. The debt has increased due to green field capacity and recent group consolidation activity. However, it will be a key focus area for the company and the management will continue to keep D/E under check. Government's focus to improve safety features in vehicles (airbags, LEDs and rear parking sensors) and increasing premium products demand will drive the revenue growth and margins further going ahead. Considering the higher interest cost due to increased debt level and higher tax expenses we reduce our FY20 EPS estimate by 7%. However, we remain optimistic about the growth potential of the company and expect revenue and PAT to grow at 26% and 21% CAGR over FY18-20 respectively. We value MINDAIND at 22x FY20E EPS to arrive at a target price of Rs.405 and maintain BUY.

Key Risks to our rating and target

- Slow down in overall automotive industry (88% revenue from OEMs)
- Increase in interest rates may put pressure on profitability.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2527	3386	4471	5985	7122
EBITDA	238	374	534	743	906
EBIT	145	238	369	514	625
PAT	111	185	331	383	481
EPS (Rs)	5	8	13	15	18
EPS growth (%)	64	67	63	16	26
ROE (%)	24	24	24	22	22
ROCE (%)	23	25	23	24	25
BV	20	32	53	66	82
P/B (X)	2	7	5	5	4
P/E (x)	9	30	23	24	19

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

2QFY19 Results

PAT below estimates

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,098	1,056	1,371	1,430	1,522	39%	6%	3,386	4,471	32%
Other Income	4	8	12	7	5	7%	-27%	14	33	141%
Total Income	1,103	1,064	1,383	1,436	1,526	38%	6%	3,400	4,504	32%
COGS	686	647	845	883	938	37%	6%	2,116	2,763	31%
Staff Cost	139	141	176	189	195	41%	4%	451	587	30%
Other Exp.	137	141	180	189	199	46%	6%	444	587	32%
Expenditure	962	930	1,201	1,260	1,332	39%	6%	3,012	3,937	31%
EBITDA	137	126	170	170	189	39%	11%	374	534	43%
Depreciation	38	42	49	49	56	47%	14%	136	165	21%
EBIT	98	84	121	121	133	36%	10%	238	369	55%
Interest	6	7	14	13	15	140%	14%	40	35	-12%
PBT	96	85	119	114	123	27%	8%	212	367	73%
Excpt. Item	-	-	(38)	-	-	0%	0%	-	(38)	0%
Tax	30	24	23	34	39	31%	15%	46	98	110%
PAT	73	66	140	85	89	21%	5%	185	331	79%

Robust revenue growth across segments

MINDAIND has come up with another strong quarterly performance in 2QFY19. The company has posted revenue of Rs. 1522 crores with a growth of 39% YoY. This robust growth was supported by whopping revenue growth across all business segments. The switch business grew robustly by 75 %YoY to Rs.609 crores. Switch business comprises of 40% of the total revenue in 2QFY19. The lamps and horns & acoustics business accounted for 22% and 12% of overall revenue pie and grew by 9% and 7%YoY respectively. The other business which includes alloy wheel, aluminum die casting, blow molding etc, clocked sales of Rs. 406 crores with 44%YoY growth.

Operational efficiencies maintained margins

Gross margin remained flat QoQ to 38.4% due to increase in commodity prices and currency fluctuation. Overall EBITDA margin improved by 50bps on sequential basis to 12.4% primarily led by operating leverage benefit and increased contribution of alloy wheels business. The overall capacity utilization across all product lines was approximately 80% during the quarter.

Higher depreciation, finance cost and tax expenses led to decline in PAT margins

PAT for the quarter stood at Rs.89 crores with 21% YoY growth. However, PAT margin declined by 84 bps YoY to 5.8% primarily led by higher depreciation expenses, finance cost and tax expenses.

Concall highlights

- ❑ The company has got orders for LED lamps for TVS Jupiter, Honda Activa 125 cc and Apache model. The company has also got new headlamp order from Hero.
- ❑ TG Minda acquisition – The acquisition of 47.8% has been completed with effect from September 28, 2018. The company has now become a JV of MIL. The company will be consolidated with MIL based on equity method.
- ❑ I-SYS RTS Acquisition - Transaction has been completed on September 12, 2018. It is now as Subsidiary of MIL, has been consolidated in this quarter for 18 days. It has acquired 80% stake in the company.
- ❑ The board has also approved a project for controller and telematics for a total outlay Rs 80 crores over next 12 months at Chakan, Pune. The Project is expected to be commissioned in Q3 2019-20 with revenue expectation of Rs.300 crores in 3 year at full capacity.
- ❑ The company is setting up a 2 wheeler alloy wheel plant in Maharashtra with capital outlay of Rs.300 crores. The plant is expected to commence production from 4QFY20 with revenue potential of Rs.450-500 crores.
- ❑ The existing alloy wheel plant at Gujarat will ramp up by the end of FY19.
- ❑ The Company has tied up with Sensata for Sensors and production is likely to begin from April 2019. By 2022-2023, the company expects to have revenue of Rs.400 crores from this business.
- ❑ Inventory holding period - For Imports is 45-60 days and for Domestic is 15-30 days
- ❑ Capex for FY19 is Rs. 500 crores and Rs. 300 crores for FY20.

Exhibit: Net sales (Rs. Crore) and Growth Trend

Growth was mainly due to good revenue earned across all business divisions

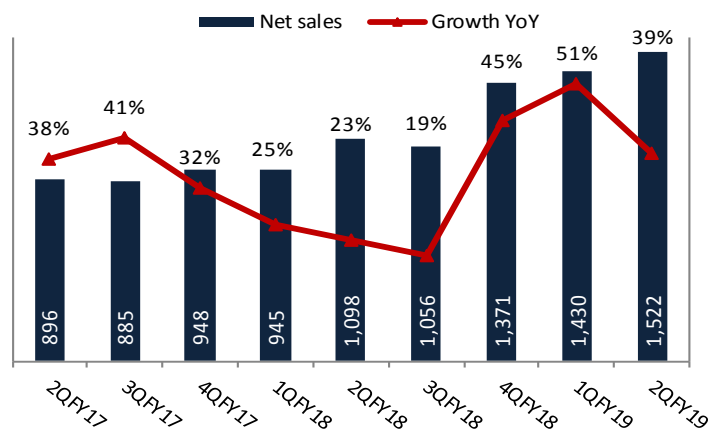


Exhibit: COGS (Rs. Crore) & Gross Margin Trend

Gross margin maintained despite higher commodity prices in last 2 quarters

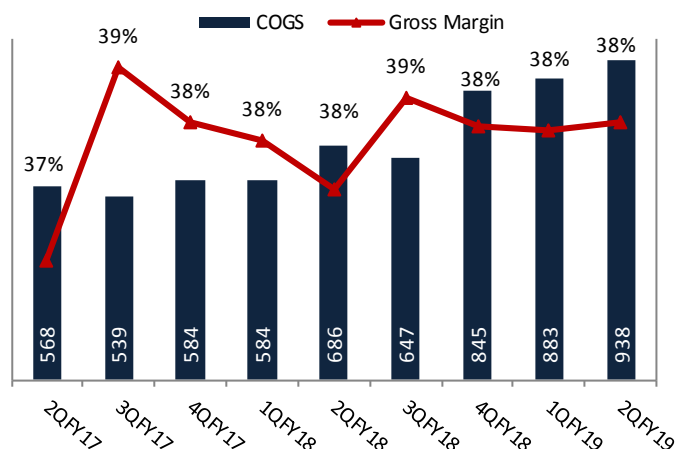


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Operating leverage benefit helped to protect the margins at 12% level

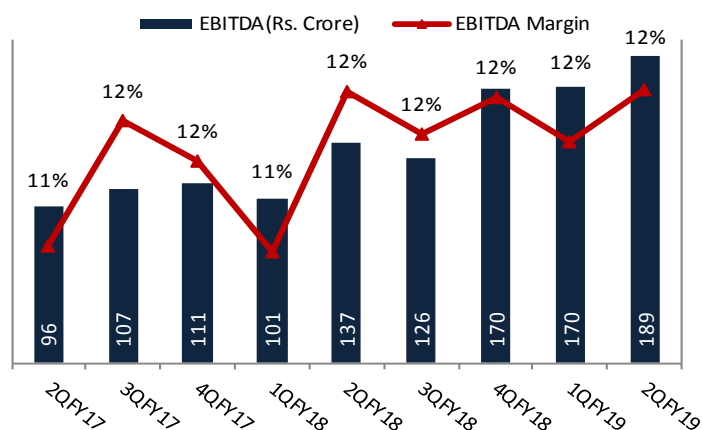


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin declined due to higher depreciation expenses, finance cost and tax expenses

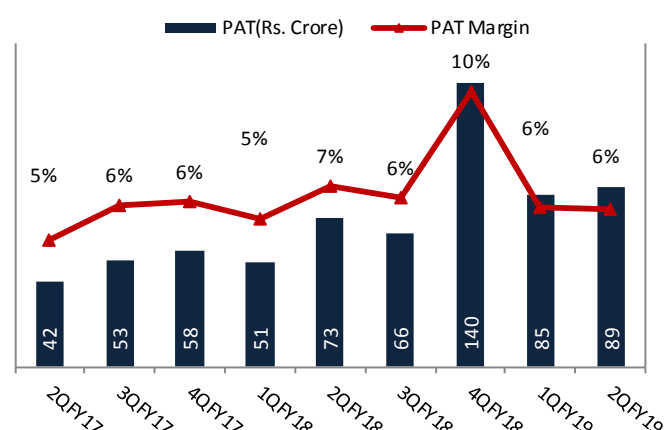


Exhibit: Segmental Revenue Growth (in Rs. Cr.)

Growth across various segments led to healthy revenue growth

Switches Horns/Acoustics Lighting Others

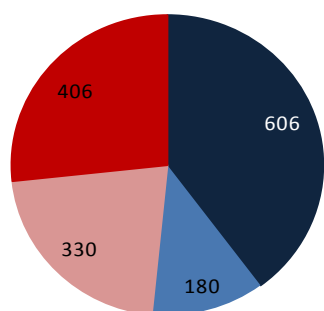
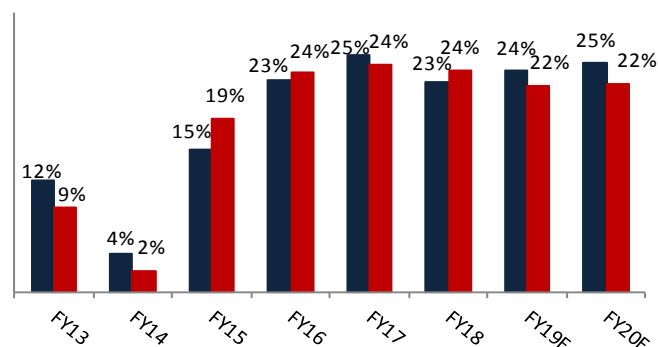


Exhibit: Return Ratios

Return ratios to improve going ahead as the profitability improves

RoCE RoE



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	19	19	19	19	16	17	26	26
Reserves	289	292	346	452	744	1,374	1,704	2,129
Networth	309	311	365	472	759	1,392	1,730	2,155
Debt	170	278	209	353	438	543	788	709
Other Non Cur Liab	25	26	29	43	112	155	155	155
Total Capital Employed	398	449	462	641	937	1,632	2,168	2,549
Net Fixed Assets (incl CWIP)	361	422	420	697	993	1,450	1,812	1,815
Non Cur Investments	22	24	26	44	111	155	278	530
Other Non Cur Asst	4	9	12	8	20	40	40	40
Non Curr Assets	411	478	478	787	1,196	1,838	2,323	2,577
Inventory	89	125	141	184	238	418	492	546
Debtors	217	261	289	364	500	790	984	1,132
Cash & Bank	39	28	28	57	374	159	211	217
Other Curr Assets	3	7	5	8	82	141	141	141
Curr Assets	395	504	519	700	1,202	1,527	1,848	2,056
Creditors	216	247	267	321	486	798	984	1,073
Provisions (both)	29	36	42	52	68	119	124	127
Other Curr Liab	62	94	89	169	48	92	123	146
Curr Liabilities	290	352	372	510	670	1,064	1,286	1,402
Net Curr Assets	105	152	147	190	531	463	562	653
Total Assets	806	981	997	1,487	2,398	3,365	4,170	4,633

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,340	1,706	2,232	2,527	3,386	4,471	5,985	7,122
Change (%)	14	27	31	13	34	32	34	19
Other Income	11	17	17	14	14	33	37	56
EBITDA	93	78	154	238	374	534	743	906
Change (%)	23	(17)	98	54	57	43	39	22
Margin (%)	7	5	7	9	11	12	12	13
Depr & Amor.	46	59	83	93	136	165	229	281
EBIT	47	19	71	145	238	369	514	625
Int. & other fin. Cost	19	24	25	26	40	35	54	64
EBT	39	11	63	134	212	367	496	617
Exp Item	(0)	(1)	(16)	(5)	-	(38)	-	-
Tax	11	8	19	28	46	98	140	167
Minority Int & P/L share of Ass.	(0)	2	9	0	20	23	27	31
Reported PAT	28	7	68	111	185	331	383	481
Adjusted PAT	28	7	68	111	185	331	383	481
Change (%)	(2)	(75)	847	64	67	79	16	26
Margin(%)	2	0	3	4	5	7	6	7

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	9%	2%	19%	24%	24%	24%	22%	22%
ROCE	12%	4%	15%	23%	25%	23%	24%	25%
Asset Turnover	1.66	1.74	2.24	1.70	1.41	1.33	1.44	1.54
Debtor Days	59	56	47	53	54	64	60	58
Inv Days	24	27	23	27	26	34	30	28
Payable Days	59	53	44	46	52	65	60	55
Int Coverage	2	1	3	6	6	11	9	10
P/E	11	37	10	9	30	23	24	19
Price / Book Value	1	1	2	2	7	5	5	4
EV/EBITDA	4	5	5	5	14	15	12	10
FCF per Share	(2)	(3)	3	(3)	3	(6)	1	17

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	39	13	79	139	212	405	496	617
(inc)/Dec in Working Capital	12	(42)	(10)	(82)	9	(103)	(47)	(86)
Non Cash Op Exp	46	59	83	93	136	165	229	281
Int Paid (+)	18	23	25	26	40	35	54	64
Tax Paid	(10)	(9)	(17)	(25)	(56)	(85)	(140)	(167)
others	(9)	(2)	(33)	(3)	(8)	(24)	27	31
CF from Op. Activities	95	42	135	146	335	362	620	740
(inc)/Dec in FA & CWIP	(105)	(137)	(122)	(74)	(211)	(254)	(517)	(592)
Free Cashflow	(9)	(95)	13	72	124	108	103	149
(Pur)/Sale of Inv	2	(23)	21	2	-	-	-	-
others	17	8	8	(48)	(17)	(124)	(123)	(252)
CF from Inv. Activities	(118)	(137)	(39)	(257)	(271)	(641)	(714)	(535)
inc/(dec) in NW	-	-	-	-	300	-	-	-
inc/(dec) in Debt	15	106	(67)	160	(3)	84	245	(79)
Int. Paid	(17)	(23)	(26)	(25)	(39)	(35)	(54)	(64)
Div Paid (inc tax)	(6)	(6)	(10)	(13)	(27)	(23)	(45)	(56)
others	2	3	5	0	-	-	-	-
CF from Fin. Activities	(5)	80	(98)	123	253	46	155	(199)
Inc(Dec) in Cash	(28)	(15)	(2)	13	317	(232)	60	6
Add: Opening Balance	67	39	23	21	38	358	126	173
Closing Balance	39	24	21	34	358	125	186	179

Disclosures: Narnolia Financial Advisors Ltd.* (NFAL) (FormerlyMicrosec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300002407 valid till 01.12.2020. NFALis engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, it's associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and it's associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Terms & Conditions: This report has been prepared by NFAL and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL)and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.