

Minda Industries Limited

Industry Auto Ancillary
Bloomberg MINDA IN
BSE CODE 532539

Near term demand headwinds and higher base to impact growth but long term growth story intact

RATING	BUY
CMP	292
Price Target	348
Potential Upside	19%

Rating Change	↔
Estimate Change	↔
Target Change	↓

Stock Info

52wk Range H/L	455/273
Mkt Capital (Rs Cr)	7329
Free float (%)	29%
Avg. Vol 1M (,000)	131
No. of Shares (Cr.)	26
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ MINDAIND has reported revenue growth of 39% YoY at Rs.1470 crores largely driven by strong growth in switches, lighting and alloy wheels business.
- ❑ EBITDA margins largely remained flat QoQ to 12.3% despite commodity cost pressure and currency depreciation.
- ❑ PAT for the quarter stood at Rs. 81 crores with reduced PAT margins at 5.5% led by higher depreciation cost due to capitalization of new projects in Gujarat.
- ❑ The 2W alloy wheel plant is expected to get commissioned by March 2020 and the revenue from that is expected to come from FY21.
- ❑ Capex plan is Rs. 450 crores and Rs. 400 crores for FY19 and FY20 respectively.
- ❑ With regulatory changes like transition from BS-IV to BSVI, and safety norms related to compulsory airbags and reverse parking sensors, the auto ancillary industry is likely to see a renewed growth momentum in 2019.

View and Valuation

MINDAIND has continued its growth streak and reported stellar quarterly performance with 39%YoY revenue growth. EBITDA margin remained flat on sequential basis as increasing premium products demand was offset by rising commodity cost pressure. Earlier, the management has expected to grow at double the sector growth for next two years but considering the recent subdued demand environment the management has lowered down its guidance to better than industry growth. The demand scenario in the overall automobile industry continued to be sluggish since last 4-5 months and the OEMs are still uncertain about the demand for next couple of months. The group restructuring is expected to complete by 4QFY19 and there will be organic growth only after then, which may also result some softness in revenue growth and 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. As we have already factored in lower growth as compared to previous quarters due to muted demand scenario and higher base effect coupled with increased debt level, we largely maintain our estimates for FY20. However, we remain cautiously optimistic about the growth potential of the company and expect revenue and PAT to grow at 26% and 17% CAGR over FY18-20 respectively. We value MINDAIND at 20x FY20E EPS to arrive at a target price of Rs.348 and maintain BUY.

Key Risks to our rating and target

- ❑ Prolonged slowdown in automobile industry
- ❑ Increase in Commodity Prices.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2527	3386	4471	5998	7127
EBITDA	238	374	534	734	892
EBIT	145	238	369	504	629
PAT	111	185	331	355	456
EPS (Rs)	5	8	13	14	17
EPS growth (%)	63.5	66.6	62.6	7.1	28.4
ROE (%)	23.6	24.4	23.8	21.3	22.0
ROCE (%)	22.7	25.4	22.6	23.9	25.5
BV	20	32	53	64	79
P/B (X)	2.2	7.3	5.5	4.6	3.7
P/E (x)	9.4	30.0	23.1	21.6	16.8

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3QFY19 Results

Result above expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,056	1,371	1,430	1,522	1,470	39%	-3%	3,386	4,471	32%
Other Income	8	12	7	5	3	-65%	-43%	14	33	141%
Total Income	1,064	1,383	1,436	1,526	1,473	38%	-4%	3,400	4,504	32%
COGS	647	845	883	938	903	40%	-4%	2,116	2,763	31%
Staff Cost	141	176	189	195	205	45%	5%	451	587	30%
Other Exp.	141	180	189	199	181	29%	-9%	444	587	32%
Expenditure	930	1,201	1,260	1,332	1,290	39%	-3%	3,012	3,937	31%
EBITDA	126	170	170	189	180	43%	-5%	374	534	43%
Depreciation	42	49	49	56	61	45%	8%	136	165	21%
EBIT	84	121	121	133	120	42%	-10%	238	369	55%
Interest	7	14	13	15	15	107%	-4%	40	35	-12%
PBT	85	119	114	123	108	27%	-12%	212	367	73%
Excpt. Item	-	(38)	-	-	-	-	-	-	(38)	-
Tax	24	23	34	39	28	17%	-27%	46	98	110%
PAT	61	135	81	84	79	31%	-6%	185	331	79%

Revenue growth of 39.2%YoY backed by strong growth across segment

Net sales grew by 39.2% YoY at Rs.1470 crores in 3QFY19 largely driven by strong growth in switches, lighting and alloy wheels business. The switch business grew robustly by 68%YoY to Rs.534 crores. Switch business comprises of 36% of the total revenue in 3QFY19. The lamps and horns & acoustics business accounted for 23% and 12% of overall revenue pie and grew by 23% and flat YoY respectively. The other business which includes alloy wheel, aluminum die casting, blow molding etc, clocked sales of Rs. 431 crores with 46%YoY growth.

Higher employee expenses impacted margins

Gross margins stood at 38.6% improved by 20bps on QoQ basis in 3QFY19 largely on account of consolidation and higher alloy wheels sales despite commodity cost pressure. EBITDA margin continued to maintain over 12% and the management also expect margins to remain in the range of 12-12.5% for FY19.

PAT margins contracted led by higher depreciation expense

PAT for the quarter stood at Rs.81 crores during the quarter. PAT margins reduced by 30bps largely on account of higher depreciation expense during the quarter because of capitalization of new projects in Gujarat.

Concall Highlights :

- The management expect to grow better than the industry going ahead.
- MIL has entered into a definitive agreement with KPIT Engineering Ltd (KPIT) to purchase its business related to telematics hardware products consisting VTS - AIS 140, OBITS (On Bus Integrated Telematics Systems complying to UBS-II specifications) and telematics products for School buses. (Transaction Consideration ~Rs. 25 crores)
- Due to BS-VI emission norms, the filters and cannisters business of the company's portfolio is impacted.
- With government's thrust on rural development along with OEMs plan for new launches, the industry is expected to see the revival soon.
- With regulatory changes like transition from BS-IV to BSVI, and safety norms related to compulsory airbags and reverse parking sensors, the auto ancillary industry is likely to see a renewed growth momentum in 2019.
- The auto industry witnessed subdued demand in Q3FY19. The 2W, 3W, 4W including CV and off road growth were 10%, 8%, -5% and 18% respectively.
- The company expects CV volume growth to be at 9-10% over next 2 years.
- Gross debt for this quarter stands at Rs 850 crs on consolidated basis.
- Higher depreciation this quarter is on account of capitalization of new projects in Gujarat.
- The capex to be used for Sensor plant is Rs 110-120 cr and potential revenue is expected to be around Rs 400 crs.
- The 2W alloy wheel plant is expected to get commissioned by March 2020 and the revenue from that is expected to come from 2021.

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

Revenue growth of 39% in 3QFY19 was driven by growth in Switches, Lightings and alloy wheels businesses

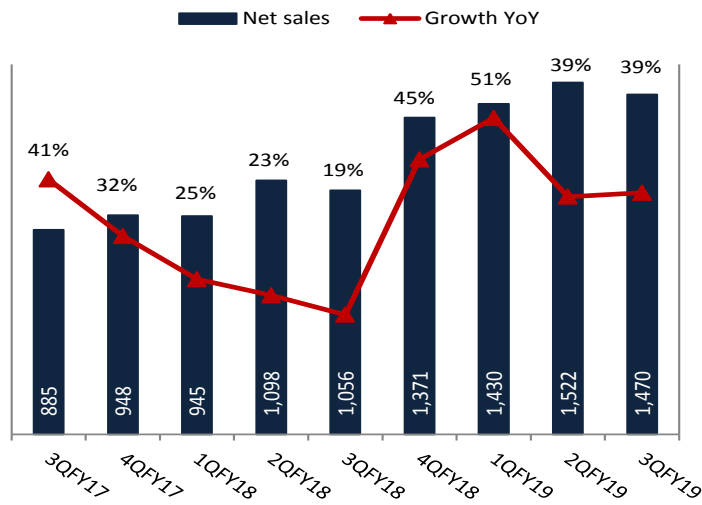


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA Margin maintained at 12.3% in 3QFY19 despite commodity cost pressure and currency fluctuation.

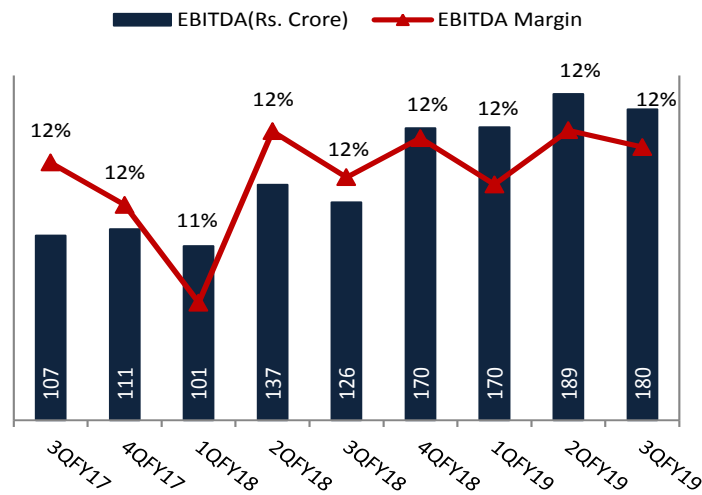


Exhibit: Revenue mix

Favourable change in revenue mix led to higher growth in revenue.

■ Switches ■ Horns/Acoustics ■ Lighting ■ Others

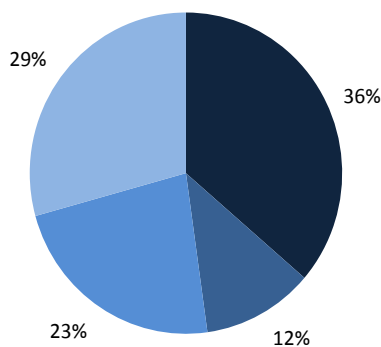


Exhibit: COGS (Rs. Crore) & Gross Margin Trend

Gross margins increased by 20bps on QoQ basis with favourable change in mix

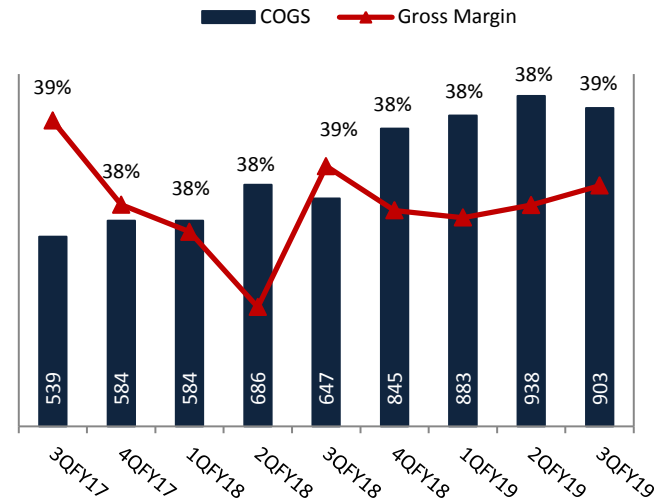


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins reduced due to higher depreciation expense and lower other income.

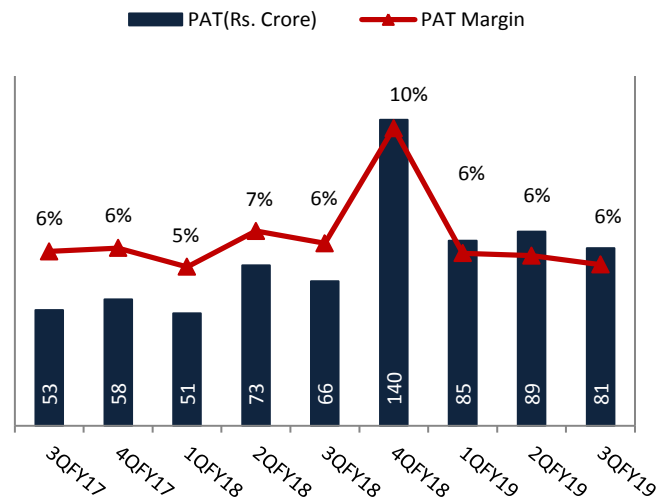
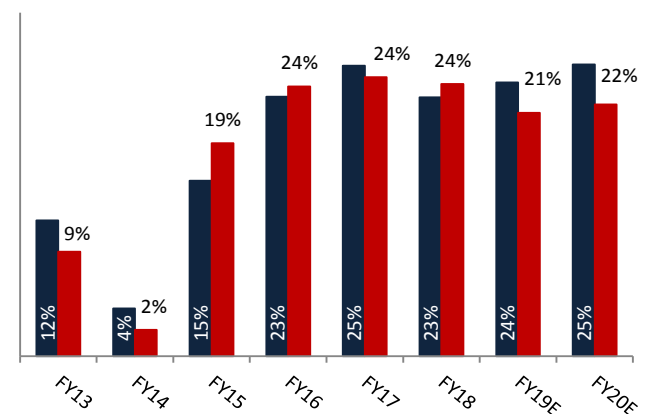


Exhibit: Return Ratios

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
<i>Share Capital</i>	19	19	19	19	16	17	52	52
<i>Reserves</i>	289	292	346	452	744	1,374	1,618	2,021
<i>Networth</i>	309	311	365	472	759	1,392	1,671	2,074
<i>Debt</i>	170	278	209	353	438	543	842	758
<i>Other Non Cur Liab</i>	25	26	29	43	112	155	155	155
<i>Total Capital Employed</i>	398	449	462	641	937	1,632	2,109	2,468
<i>Net Fixed Assets (incl CWIP)</i>	361	422	420	697	993	1,450	1,596	1,717
<i>Non Cur Investments</i>	22	24	26	44	111	155	315	396
<i>Other Non Cur Asst</i>	28	31	31	47	92	233	314	314
<i>Non Curr Assets</i>	411	478	478	787	1,196	1,838	2,225	2,427
<i>Inventory</i>	89	125	141	184	238	418	559	625
<i>Debtors</i>	217	261	289	364	500	790	1,035	1,211
<i>Cash & Bank</i>	39	28	28	57	374	159	205	220
<i>Other Curr Assets</i>	49	90	61	96	90	160	177	177
<i>Curr Assets</i>	395	504	519	700	1,202	1,527	1,976	2,232
<i>Creditors</i>	216	247	267	321	486	798	1,019	1,133
<i>Provisons (both)</i>	29	36	42	52	68	119	124	127
<i>Other Curr Liab</i>	45	69	63	136	116	147	179	202
<i>Curr Liabilities</i>	290	352	372	510	670	1,064	1,321	1,462
<i>Net Curr Assets</i>	105	152	147	190	531	463	654	770
<i>Total Assets</i>	806	981	997	1,487	2,398	3,365	4,201	4,659

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	5,998	7,127
Change (%)	14%	27%	31%	13%	34%	32%	34%	19%
Other Income	11	17	17	14	14	33	26	37
EBITDA	93	78	154	238	374	534	734	892
Change (%)	23%	-17%	98%	54%	57%	43%	37%	22%
Margin (%)	7.0%	4.6%	6.9%	9.4%	11.0%	11.9%	12.2%	12.5%
Depr & Amor.	46	59	83	93	136	165	229	262
EBIT	47	19	71	145	238	369	504	629
Int. & other fin. Cost	19	24	25	26	40	35	60	76
EBT	39	11	63	134	212	367	471	590
Exp Item	(0)	(1)	(16)	(5)	-	(38)	-	-
Tax	11	8	19	28	46	98	134	155
Minority Int & P/L share of Ass.	(0)	2	9	0	20	23	18	21
Reported PAT	28	5	59	111	165	308	337	435
Adjusted PAT	28	7	68	111	185	331	355	456
Change (%)	-2%	-75%	847%	64%	67%	79%	7%	28%
Margin(%)	2.1%	0.4%	3.0%	4.4%	5.5%	7.4%	5.9%	6.4%

Financial Details
Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	9%	2%	19%	24%	24%	24%	21%	22%
ROCE	12%	4%	15%	23%	25%	23%	24%	25%
Asset Turnover	1.7	1.7	2.2	1.7	1.4	1.3	1.4	1.5
Debtor Days	59	56	47	53	54	64	63	62
Inv Days	24	27	23	27	26	34	34	32
Payable Days	59	53	44	46	52	65	62	58
Int Coverage	2.5	0.8	2.8	5.7	6.0	10.5	8.4	8.3
P/E	10.6	37.0	10.2	9.4	30.0	23.1	28.9	22.5
Price / Book Value	1.0	0.9	1.9	2.2	7.3	5.5	4.6	3.7
EV/EBITDA	4	5	5	5	14	15	10	9
FCF per Share	(2)	(3)	3	(3)	3	(6)	3	11

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	39	13	79	139	212	405	471	590
(inc)/Dec in Working Capital	12	(42)	(10)	(82)	9	(103)	(173)	(101)
Non Cash Op Exp	46	59	83	93	136	165	229	262
Int Paid (+)	18	23	25	26	40	35	60	76
Tax Paid	(10)	(9)	(17)	(25)	(56)	(85)	(134)	(155)
others	(9)	(2)	(25)	(3)	(6)	(56)	-	-
CF from Op. Activities	95	42	135	146	335	362	453	672
(inc)/Dec in FA & CWIP	(105)	(137)	(122)	(74)	(211)	(254)	(517)	(376)
Free Cashflow	(9)	(95)	13	72	124	108	(63)	297
(Pur)/Sale of Inv	2	(23)	21	2	-	-	-	-
others	(15)	23	62	(185)	(60)	(386)	(19)	(89)
CF from Inv. Activities	(118)	(137)	(39)	(257)	(271)	(641)	(536)	(465)
inc/(dec) in NW	-	-	-	-	300	-	-	-
inc/(dec) in Debt	15	106	(67)	160	(3)	84	299	(84)
Int. Paid	(17)	(23)	(26)	(25)	(39)	(35)	(60)	(76)
Div Paid (inc tax)	(6)	(6)	(10)	(13)	(27)	(23)	(41)	(53)
others	2	3	5	0	23	20	-	-
CF from Fin. Activities	(5)	80	(98)	123	253	46	198	(213)
Inc(Dec) in Cash	(28)	(15)	(2)	13	317	(232)	116	(6)
Add: Opening Balance	67	39	23	21	38	358	126	167
Closing Balance	39	24	21	34	358	125	241	161

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