

Industry  
Bloomberg  
BSE CODE

Auto Anciliary  
MINDA IN  
532539

RATING	NEUTRAL
CMP	382
Price Target	387
Potential Upside	1%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	426/256
Mkt Capital (Rs Cr)	10,031
Free float (%)	29%
Avg. Vol 1M (,000)	158
No. of Shares (Crs)	26
Promoters Pledged %	0%

## RESEARCH ANALYST

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## Premiumisation to mitigate risk of weaker operating leverage

### 3QFY20 Result Update

- MINDAIND reported result below expectations; Revenue de-grew by 9.7% YoY to Rs 1327 crs (vs. expected Rs 1406 crs), impacted by slowdown in automobile sector.
- Switches, Lightings, Light metal technology (LMT) & Horns/Acoustics posted revenue of Rs 446 crs, 312 crs, Rs 184 crs and Rs 158 crs with contribution of 34%, 23% 14% and 12% respectively.
- Gross margin remained flat at 40.1% QoQ. EBITDA margin expanded by 42 bps to 12.3% QoQ led by decline in other expenses by 86 bps QoQ on account of cost saving initiatives taken by the company.
- PAT stood at Rs 54 crs (vs. expect. Rs 74 crs) and PAT margin contracted by 142 bps QoQ to 4.1%, impacted by higher interest and exceptional loss.
- Exceptional items for the quarter of Rs.5.17 Crore is relating to acquisition.
- The Segment -wise breakup is 2 wheeler 49% and 4 wheeler 51% in 3QFY20.
- The total borrowings were at Rs 1,133 crores in 3QFY20. The increase in borrowings was mainly for investment in Delvis, 2Wheeler alloy wheel and sensor projects.
- Harita acquisition: NCLT final hearing is scheduled on February 25, 2020; Shareholders and creditors approval received. The company has secured business for passenger buses and certain components for 4W seating.

### View and Valuation

The demand environment continues to remain uncertain while recovery may come on the back of improving rural sentiments. The retail demand has been improved on account of new launches across categories. Though increased BS-VI led cost of ownership will hamper the overall demand in 1HFY21. However, new product launches in premium segment with improved kit value will mitigate the weaker operating leverage risk and add to the margins going ahead. Considering the commissioning of new plants and addition of new businesses will lead to increase in depreciation and debt level in the books. However the management seems confident on outperforming the industry in the long run. We value the stock at 23x FY21e EPS to arrive at a target price of Rs.387 and maintain NEUTRAL.

### Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3386	4471	5908	5821	6926
EBITDA	374	534	725	724	925
EBIT	238	369	491	428	600
PAT	185	331	339	289	447
EPS (Rs)	8	13	13	11	17
EPS growth (%)	66.6	62.6	2.3	(14.7)	54.5
ROE (%)	24.4	23.8	19.9	14.7	19.0
ROCE (%)	25.4	22.6	21.2	16.6	20.2
BV	32	53	65	75	90
P/B (X)	7.3	5.5	5.0	5.1	4.2
P/E (x)	30.0	23.1	25.2	34.6	22.4

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## Result below expectation

### 3QFY20 Results

Conso./Fig in Rs Cr

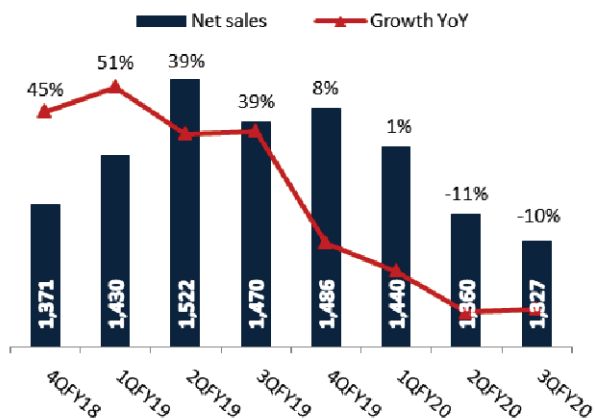
FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,470	1,486	1,440	1,360	1,327	-10%	-2%	4,471	5,908	32%
Other Income	3	13	7	5	11	319%	123%	33	27	-19%
Total Income	1,473	1,500	1,447	1,365	1,338	-9%	-2%	4,504	5,935	32%
COGS	903	899	872	815	795	-12%	-2%	2,763	3,622	31%
Staff Cost	205	203	215	208	209	2%	0%	587	791	35%
Other Exp.	181	200	180	175	159	-12%	-9%	587	769	31%
Expenditure	1,290	1,301	1,268	1,198	1,163	-10%	-3%	3,937	5,183	32%
EBITDA	180	185	172	162	163	-9%	1%	534	725	36%
Depreciation	61	68	71	74	75	23%	2%	165	234	42%
EBIT	120	117	101	88	88	-26%	1%	369	491	33%
Interest	15	20	24	24	22	49%	-9%	35	63	80%
PBT	108	110	84	69	78	-28%	13%	367	455	24%
Excpt. Item	-	-	-	-	5	-	-	(38)	-	-
Tax	28	33	28	17	19	-32%	13%	98	134	37%
PAT	79	76	56	52	53	-33%	3%	331	339	3%

### Concall Highlights

- During festive season in 3QFY20, the sector witnessed little pickup in retail growth for PVs & 2Ws, post that there was a visible reduction in rate of decline. This also indicated gradual revival.
- There is increase in rate of custom duty on imported electric vehicles.
- Government is working to bring new scrappage policy, this would incentivize the purchase of new efficient vehicles with scrappage of old vehicles. This incentive was introduced; it also expected to aid the volume recovery in coming quarters.
- Outlook FY21: Good rabi crop; decent monsoon and low base effect should give impetus for gradual economic recovery and should spur rebound in volume growth.
- With good line up of new model launches in coming months, volume recovery hopes are high from 2QFY21.
- PVs are showing some green shoots, 2W transition from BS IV to BS VI is going fast.
- Company restructured Handle Bar Assembly; it re-negotiated with one major OEM, and now are billing on JOB work, this resulted in decline in sales of 33% in this business.
- The Company started supplying its new product, a side stand switch, its patented product to Yamaha and Royal Enfield that will be taken in their next model.
- Its 4W business has been got new business from MARUTI, it is for the model XI7.
- The company secured an order from a customer of LPDC technology wheels in their upcoming model next year, and it shall start supply by end of FY21. (LPDC -Low Pressure Die Casting process)
- **Update on "Scheme of Arrangement":**
  - Harita acquisition: NCLT final hearing is scheduled on February 25, 2020. The company has secured business for passenger buses and certain components for 4W seating.
  - Minda Kosei has entered into a technical licensing arrangement with Dayou Global for manufacturing LPDC alloy wheels with an objective to provide entire gamut of alloy wheels across technologies and cater to wider OEMS, be it Korean or Western.
  - Acquisition of Delvis has been completed in December 2019 and is expected to augment capabilities of lighting business in general and 4W lighting business in particular. 2W lighting business has added new customer, Yamaha and is also supplying all the lamps to Chetak EV by BAJAJ.

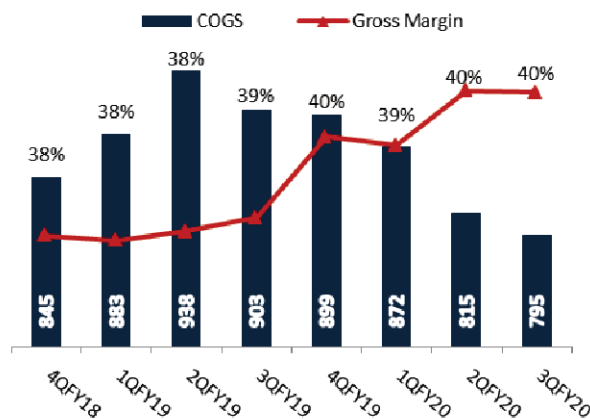
## Exhibit: Net sales (Rs. Crore) and Growth Trend

Revenue declined by 10% YoY due to lower due to decline in automobile sector.



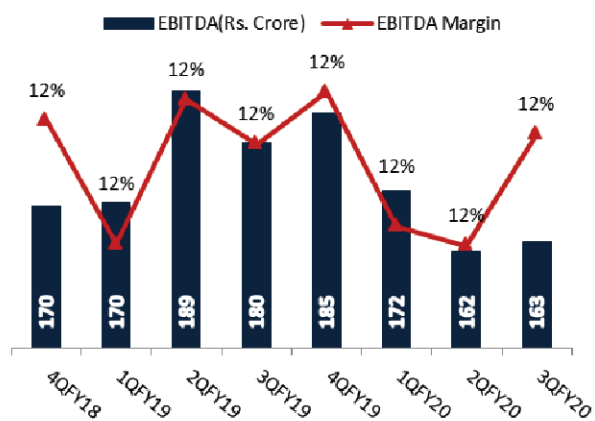
## Exhibit: COGS (Rs. Crore) & Gross Margin Trend

Gross margin remained flat at 40.1% QoQ.



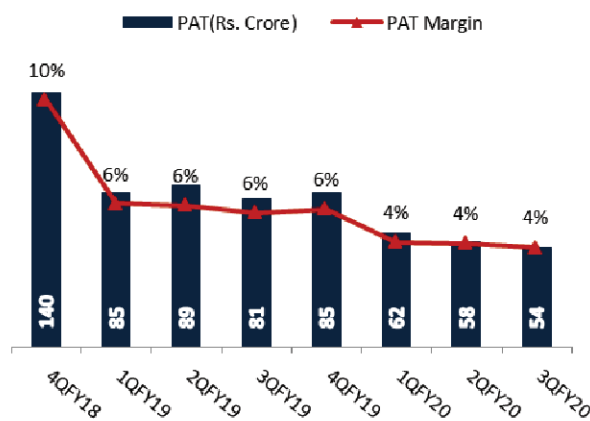
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin grew by 42 bps to 12.3% QoQ led by decline in other expenses on account of operating leverage benefits.



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

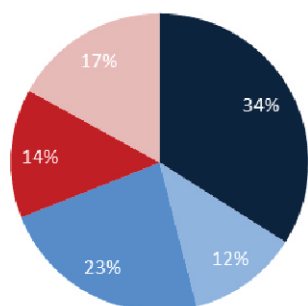
PAT margin contracted by 142 bps QoQ to 4.1%, impacted by higher interest and exceptional items.



## Exhibit: Revenue mix

Revenue mix share from various segments for the quarter 3QFY20

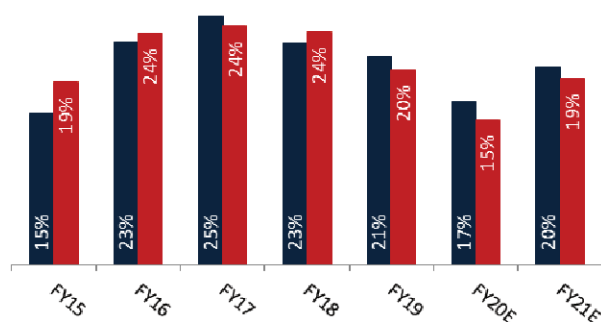
Switches | Horns/Acoustics | Lighting | LMT | Others



## Exhibit: Return Ratios

Return ratios is expected to improve going ahead as the profitability improves.

RoCE | RoE



## Financial Details

### Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	19	19	19	16	17	52	52	52
Reserves	292	346	452	744	1,374	1,652	1,911	2,306
Networth	311	365	472	759	1,392	1,704	1,963	2,358
Debt	278	209	353	438	543	955	909	918
Other Non Cur Liab	26	29	43	112	155	176	276	276
Total Capital Employed	449	462	641	937	1,632	2,311	2,576	2,977
Net Fixed Assets (incl CWIP)	422	420	697	993	1,450	1,846	2,081	2,056
Non Cur Investments	24	26	44	111	155	356	419	436
Other Non Cur Asst	31	31	47	92	233	296	296	296
Non Curr Assets	478	478	787	1,196	1,838	2,498	2,796	2,788
Inventory	125	141	184	238	418	561	542	645
Debtors	261	289	364	500	790	899	829	987
Cash & Bank	28	28	57	374	159	110	182	471
Other Curr Assets	90	61	96	90	160	162	160	186
Curr Assets	504	519	700	1,202	1,527	1,733	1,714	2,289
Creditors	247	267	321	486	798	798	765	911
Provisons (both)	36	42	52	68	119	121	121	125
Other Curr Liab	69	63	136	116	147	209	208	223
Curr Liabilities	352	372	510	670	1,064	1,128	1,095	1,258
Net Curr Assets	152	147	190	531	463	604	619	1,031
Total Assets	981	997	1,487	2,398	3,365	4,231	4,510	5,078

### Income Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,706</b>	<b>2,232</b>	<b>2,527</b>	<b>3,386</b>	<b>4,471</b>	<b>5,908</b>	<b>5,821</b>	<b>6,926</b>
Change (%)	27%	31%	13%	34%	32%	32%	-1%	19%
Other Income	17	17	14	14	33	27	39	59
<b>EBITDA</b>	<b>78</b>	<b>154</b>	<b>238</b>	<b>374</b>	<b>534</b>	<b>725</b>	<b>724</b>	<b>925</b>
Change (%)	-17%	98%	54%	57%	43%	36%	-0.1%	28%
<b>Margin (%)</b>	<b>4.6%</b>	<b>6.9%</b>	<b>9.4%</b>	<b>11.0%</b>	<b>11.9%</b>	<b>12.3%</b>	<b>12%</b>	<b>13%</b>
Depr & Amor.	59	83	93	136	165	234	296	325
EBIT	19	71	145	238	369	491	428	600
Int. & other fin. Cost	24	25	26	40	35	63	91	92
<b>EBT</b>	<b>11</b>	<b>63</b>	<b>134</b>	<b>212</b>	<b>367</b>	<b>455</b>	<b>376</b>	<b>567</b>
Exp Item	(1)	(16)	(5)	-	(38)	-	5	-
Tax	8	19	28	46	98	134	101	143
Minority Int & P/L share of Ass.	2	9	0	20	23	19	19	23
<b>Reported PAT</b>	<b>7</b>	<b>68</b>	<b>111</b>	<b>185</b>	<b>331</b>	<b>339</b>	<b>289</b>	<b>447</b>
<b>Adjusted PAT</b>	<b>7</b>	<b>68</b>	<b>111</b>	<b>185</b>	<b>331</b>	<b>339</b>	<b>289</b>	<b>447</b>
Change (%)	-75%	847%	64%	67%	79%	3%	-15%	54%
<b>Margin(%)</b>	<b>0.4%</b>	<b>3.0%</b>	<b>4.4%</b>	<b>5.5%</b>	<b>7.4%</b>	<b>5.7%</b>	<b>-4.9%</b>	<b>6.4%</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	2%	19%	24%	24%	24%	20%	15%	19%
ROCE	4%	15%	23%	25%	23%	21%	17%	20%
Asset Turnover	1.7	2.2	1.7	1.4	1.3	1.4	1.3	1.4
Debtor Days	56	47	53	54	64	56	52	52
Inv Days	27	23	27	26	34	35	34	34
Payable Days	53	44	46	52	65	49	48	48
Int Coverage	0.8	2.8	5.7	6.0	10.5	7.8	4.7	6.5
P/E	37.0	10.2	9.4	30.0	23.1	30.2	-	-
Price / Book Value	0.9	1.9	2.2	7.3	5.5	5.0	5.1	4.2
EV/EBITDA	5	5	5	14	15	12	14	11
FCF per Share	(3)	3	(3)	3	(6)	(10)	7	16

### Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	13	79	139	212	405	455	376	567
(inc)/Dec in Working Capital	(42)	(10)	(82)	9	(103)	(223)	57	(122)
Non Cash Op Exp	59	83	93	136	165	234	296	325
Int Paid (+)	23	25	26	40	35	63	91	92
Tax Paid	(9)	(17)	(25)	(56)	(85)	(115)	(101)	(143)
others	(2)	(33)	(3)	(8)	(24)	(12)	-	-
CF from Op. Activities	42	135	146	335	362	414	719	719
(inc)/Dec in FA & CWIP	(137)	(122)	(74)	(211)	(254)	(517)	(670)	(531)
Free Cashflow	(95)	13	72	124	108	(103)	49	188
(Pur)/Sale of Inv	(23)	21	2	-	-	-	-	-
others	8	8	(48)	(17)	(124)	(155)	(63)	(17)
CF from Inv. Activities	(137)	(39)	(257)	(271)	(641)	(825)	(594)	(317)
inc/(dec) in NW	-	-	-	300	-	-	-	-
inc/(dec) in Debt	106	(67)	160	(3)	84	457	(46)	9
Int. Paid	(23)	(26)	(25)	(39)	(35)	(62)	(91)	(92)
Div Paid (inc tax)	(6)	(10)	(13)	(27)	(23)	(35)	(34)	(52)
others	3	5	0	-	-	-	-	-
CF from Fin. Activities	80	(98)	123	253	46	368	(171)	(135)
Inc(Dec) in Cash	(15)	(2)	13	317	(232)	(43)	(46)	267
Add: Opening Balance	39	23	21	38	358	126	93	161
Closing Balance	24	21	34	358	125	93	47	428

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