

22 March 2021

Minda Industries – BUY

CMP : Rs.558.5
Target Price : Rs.681.0
Upside : 20%+
Stop Loss : Rs.492.0 (Closing basis)

Investment Thesis

Recently, the stock price of Minda Industries Ltd. (Minda Industries) corrected by ~8.0% from 52-week high of Rs.612.00 despite the company reported better-than-expect numbers in the recent quarters.

Minda Industries is a leading domestic-oriented auto ancillary company with nearly equal exposure to the 2-W & 4-W segments. Its legacy businesses of switches, lighting and horns formed ~72% of consolidated revenues in FY20 combined, with newer segments such as light metal technology (including alloy wheels) and sensors & controllers forming the rest of the revenue. In terms of channel mix, OEMs constitute ~90% of sales with the remainder contributed by aftermarket and exports. Minda Industries has achieved faster than industry growth on account of increasing business with existing clients, new customer additions, acquisitions and introduction of new products that meet premiumisation (alloy wheels, LED lighting) or regulatory needs (air bags, telematics solutions, etc.). Higher pace of OEM ramp-up post Covid-19 is going to be a positive for Minda Industries with healthy revenue growth and higher margins going ahead.

Minda Industries is a tier-I supplier to major automobile companies having highest market share. Its diversified portfolio caters every segment of the industry. During FY20, Minda Industries has made investment in favorable value migration products like sensors and controller, which are really paying result for the company amid crisis. In addition, other than the conventional product like, switches, lighting and horns, products like Alloy Wheel (LMT), Die casting and Blow mounding through its subsidiaries and JV has played significant role in shaping the company. During FY20, Minda Industries registered a revenue growth of 8% YoY outperforming the negative industry growth.

Financials

- During the past 5 years, revenue of Minda Industries grew at a CAGR of 19.6% while PAT grew at a CAGR of 17.9% in same period.

Consol. (Rs.Mn.)	FY18	FY19	FY20	FY21E	FY22E
Revenue	44,706	59,081	54,651	62,849	72,276
EBITDA	5,338	7,252	6,192	7,120	8,189
% growth	42.7	35.8	-14.6	15.0	15.0
PAT	3,102	2,856	1,550	1,779	2,042
EPS (INR)	11.8	10.9	5.9	6.5	7.5
P/E (x)	48.2	52.3	96.5	87.1	75.9
RoE (%)	21.8%	16.8%	8.5%	8.9%	9.3%

- Minda Industries has reported strong 35.8% YoY growth in revenue in Q3FY21 to Rs.18,016mn driven by strong aftermarket (+55% YoY) and export sales (+25% YoY).

Stock Data

Market Cap (Rs. Mn)	1,54,790
Market Cap (\$ Mn)	2,135.1
Shares O/S (in Mn)	271.9
Avg. Volume (3 month)	4,61,000
52-Week Range (Rs.)	612.00/ 205.20

Shareholding Pattern

Promoters	70.88%
FII's	9.61%
Institutions	10.23%
Others (incl. body corporate)	9.28%

Performance (%)	1M	6M	1Yr
Absolute	2.0%	62.5%	128.6%
BSE Auto	-3.3%	24.7%	96.4%

Key Ratios

Div Yield	0.1%
TTM PE	197.4x
ROE	8.9%
TTM EPS (Rs.)	2.9/-

- EBITDA of Minda Industries improved by 61.8% YoY to Rs.2,643mn led by healthy demand coupled with higher product value per vehicle in the quarter. As a result, EBITDA margin has also increased by 240bps YoY to 14.7% in Q3FY21.
- Minda Industries' Switching systems recorded a revenue of Rs.6,300mn for Q3FY21 (35% of revenue), growing about 40% YoY fueled by demand for premiumization.

Key Business Highlights

- Minda Industries is one of the leading suppliers of proprietary automotive solution to OEMs. The company offers a wide range product across different verticals of auto components like switching systems, lighting systems, acoustic systems and alloy wheels among others.
- Minda Industries has 62 plants globally and R&D centers spread across the globe in 8 locations. It has more than 230 design registration and more than 30,000 touch points.
- Minda Industries has ~50% market share in switch segment with leading automotive components supplier. It also engaged in production of batteries for two wheelers, fuel cap and CNG/LPG kits.

Valuation

- Minda Industries' product diversification and increasing growth from new products gives better visibility on revenue front. Adhering with the BSVI norms and enhanced safety features will further lead to increase in sales value per vehicle across auto segment. Minda Industries' 2-W Alloy Wheel plant in Maharashtra with a capex of Rs.3,000mn with total capacity of the plant will be 300,000 wheels/month is delayed 6 months. However, the company expects to achieve higher share of business with domestic OEM's as currently, 60% of the industry requirement is imported.
- Minda Industries has a robust capex plan of Rs.4,000mn for FY21E. The company has plan to foray into 'controllers' business through the acquisition of 'i-SYS' is expected to be the avenue for future growth in EVs. The project is ongoing and full production is expected to commence by Q4FY21E. Further, Sensor projects, HTS line is under progress and is expected to start by H1FY21E. We believe that these capacity addition plan will open new avenue for Minda Industries going ahead.
- Minda Industries' lighting segment has been beating market growth due to a shift towards LED. In the PV segment, the company has received orders worth Rs.20bn, which expected to be converted into sales from FY23E. Through bought-out technology from Sensata, Minda Industries has increased focus on this evolving area where content will increase going ahead. The company has already started supplying high temperature sensors while the plant for wheel-speed sensors will commence by March 2021.
- With a leading domestic auto ancillary company, higher pace of OEM ramp-up post Covid-19, tier-I supplier to major automobile companies having highest market share, product diversification and increasing growth from new products and robust capex plan of Rs.4,000mn for FY21E, we value Minda Industries at 91.0x FY22E EPS of Rs.7.50 to arrive at target price of Rs.681.00, an upside of ~20%.

Risk & Concern

- Demand of auto ancillaries is highly dependent on economic growth, any economic slowdown may negatively impact Minda Industries.
- Auto ancillaries industries has low entry barrier, any new player or import of Chinese goods may intensify competition.
- Raw material cost is major cost of production of Minda Industries, any increase in the same may negatively impact the margins.

Graphs & Charts

Figure 1: Net Sales Trend

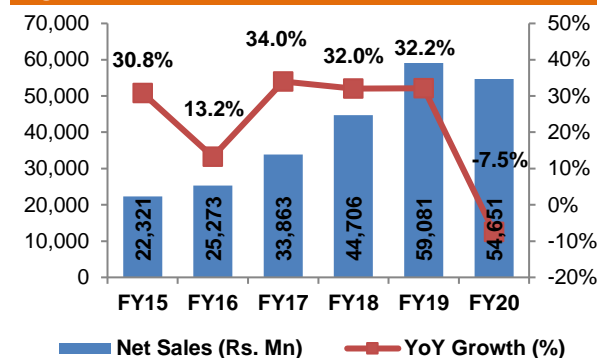


Figure 2: EBITDA & EBITDA Margin Trend

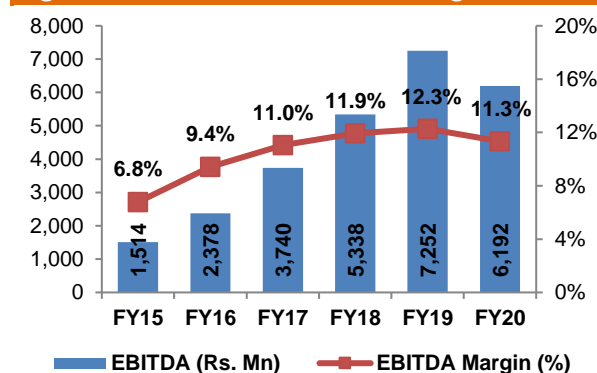


Figure 3: PAT Trend

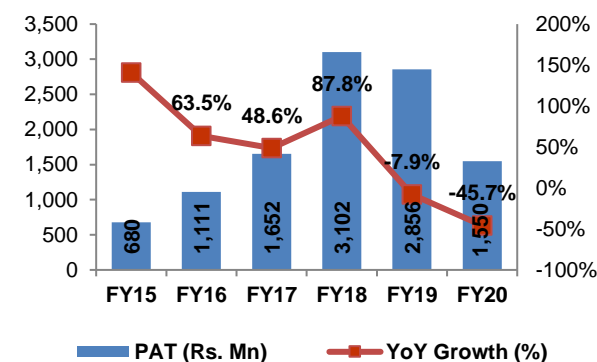
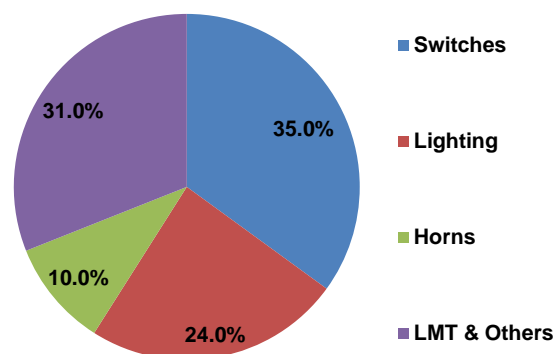


Figure 4: Segment-Wise Revenues (Q3FY21)



Name
Jitendra Upadhyay

Designation
Research Analyst

Disclosure:

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. Bonanza Portfolio Ltd or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

Bonanza Portfolio Ltd operates under the regulation of SEBI RegnNo.INM000012306

Disclaimer:

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

