Equity Research

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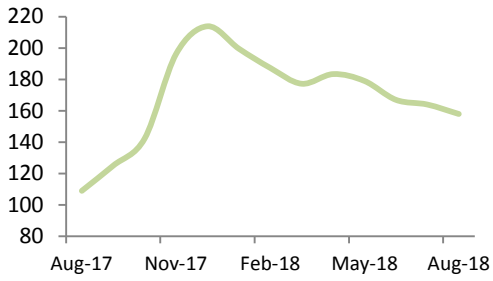
Minda Corp Ltd.

Recommendation	BUY
CMP	Rs. 153
Target Price	Rs. 220
Sector	Auto Parts & Equipments

Stock Details

BSE Code	538962
NSE Code	MINDACORP
Bloomberg Code	MDA IN
Market Cap (Rs. Cr)	3,499
Free Float (%)	30%
52 week High/Low (Rs.)	229/99
Avg. volume (BSE+NSE)	39193
Face Value (Rs.)	2
Dividend (FY18)	30%
Shares o/s (Crs)	22.59

Relative Performance	1Mth	3Mth	1Yr
Minda Corp	-2%	-16%	51%
Rel. to Sensex	-8%	-24%	31%



Shareholding Pattern	30th June 2018
Promoters Holding	64.7%
Institutional (Incl. FII)	12.6%
Public & others	22.7%

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Mixed bag – Revenue growth robust; margins disappoint

Revenue from operations for the company grew by 34% YoY to Rs. 778 Cr vs Rs. 582 Cr in Q1FY18 and Rs. 721 Cr in Q4FY18 (up 8%). EBITDA stood at Rs. 73.1 Cr as against Rs. 44.3 Cr same time last year (growth of 65%) and Rs. 81.8 Cr sequentially. MCL witnessed 180 bps EBITDA margin expansion YoY at 9.4% for the quarter, however it declined by 200 bps on sequential basis on the back of a steep increase in raw material costs. Net profit came at Rs. 37.6 Cr vs Rs. 24.6 Cr same time last year, growth of 53%.

Key Highlights for the quarter:

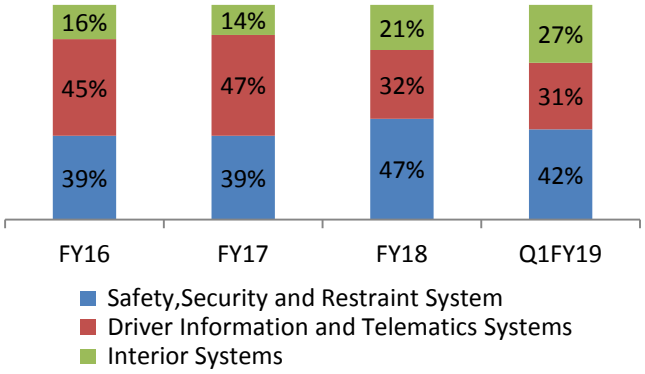
- Robust topline growth of 34% was led by growth across all major subsidiaries. Revenue mix was as follows during the quarter -
  - Safety, Security & Restraint at 42% mix (+32% YoY),
  - Driver Info & Telematics at 31% mix (+32% YoY) and
  - Interior systems at 27% mix (+42% YoY).
- Gross margins declined by 190 bps YoY and 270 bps QoQ to 36.9% on the back of a steep increase in raw material costs. Gross margins shall continue to be under pressure in the near term as the company will be able to pass on the cost increases with a lag effect and in some cases will have to absorb itself.
- EBITDA Margins expanded by 180 bps YoY to 9.4%, however it declined by 200 bps on sequential basis from 11.4%.
- Depreciation and interest costs increased by 30% and 45% YoY respectively due to expansion plans implemented.
- The quarter's profits grew by 53% to Rs. 37.6 Cr from Rs. 24.6 Cr YoY.

Valuation and Recommendation:

MCL has a diversified product base and strong clientele. The management has taken steps to improve profitability by negotiating raw material prices, undertaken cost rationalization measures and improving product mix with focus on high yield products. We expect MCL's top line to grow at a CAGR of 24% over FY18-FY20E led by (i) organic and inorganic expansion, (ii) strong relationships with OEMs, (iii) opportunities in sensors, ABS and wiring harness on the back of BS6 implementation and (iv) focus on exports. With better capacity utilization, benefit of operating leverage and implementation of BS6, we expect EBIDTA margins to inch upwards to 11.3% in FY20E from 10.5% in FY18 and 9.2% in FY17 thus translating to earnings growth of 32% CAGR over FY18-20E. ***At CMP of Rs. 153, MCL is trading at a PE of 14.1x FY20E earnings. We recommend BUY on the stock for a target price of Rs. 220 (20x FY20E).***

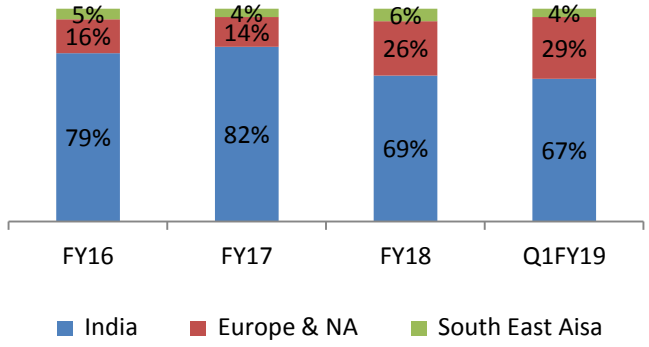
Year	Net Sales (Rs. Cr)	Growth (%)	EBIDTA (Rs. Cr)	EBIDTAM (%)	A. PAT (Rs. Cr)	Growth (%)	Diluted EPS (Rs.)	P/E (x)	EV/EBITDA (x)	Adj. ROE (%)
FY17	2060	21%	189	9.2%	102	-29%	4.5	34.1	19.2	17.2%
FY18	2593	26%	273	10.5%	142	39%	6.3	24.6	14.2	20.8%
FY19E	3288	27%	348	10.6%	181	28%	8.0	19.3	11.6	19.9%
FY20E	3996	22%	451	11.3%	247	37%	10.9	14.1	8.9	18.4%

Exhibit 1: Revenue mix by segment



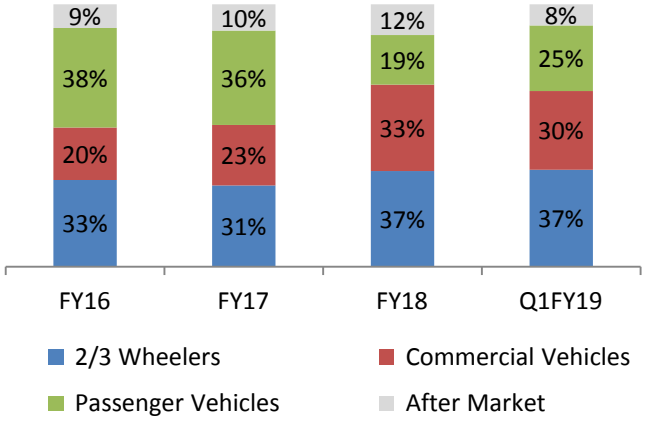
Source: Company data, NBRR

Exhibit 2: Order-book mix by geography



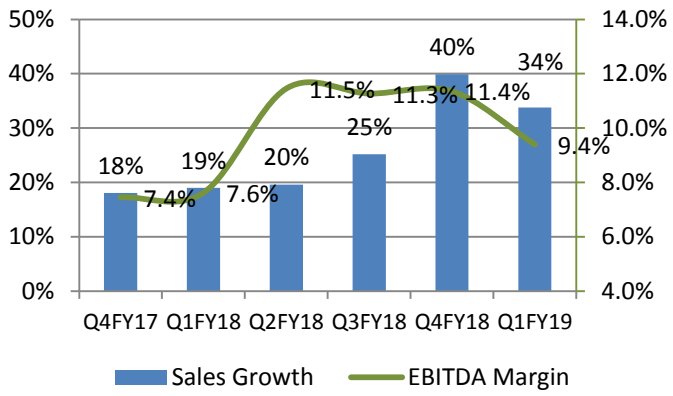
Source: Company data, NBRR

Exhibit 3: Revenue mix by segments



Source: Company data, NBRR

Exhibit 4: Revenue growth and EBITDA margins



Source: Company data, NBRR

Conference Call Highlights

- Among all the segments performing well during the current quarter, the ones worth mentioning include the Mexico plant for interior plastic systems and the diecast plant at Pune. The Mexico plant has a peak revenue potential of $20 mn while the diecast plant at Pune can achieve Rs. 200 Cr.

- MCL is confident of growing above industry growth rates. However, management believes Q1FY19 revenue growth of 34% is on the back of a lower base of Q1FY18 which was impacted by GST. Growth in future quarters should trend lower.

- A major growth trigger for MCL will be the implementation of BS6 in Q4FY20. We believe there are four major growth drivers for MCL in coming years:
  (i) Two Wheeler sensors to be addressed through Minda-Stoneridge JV,
  (ii) Wiring harness realizations are expected to increase from Rs. 400 currently to Rs. 1000-1200 post BS6 implementation. (Manufactured by Minda Sai),
  (iii) Exports to increase to Rs. 500 Cr by FY20E from Rs. 275 Cr in FY18 (were Rs. 170 Cr in FY17),
  (iv) Acquisitions, for which the company has already raised Rs. 310 Cr via QIP in May 2018.

- Gross debt stood at Rs. 723 Cr as on June 2018 and is expected to have risen by 10% till date.

- Top four clients of the company include Bajaj, M&M, Maruti and Volks Wagon. None of these individually contribute more than 12% to the revenues.

Quarterly Financials Snapshot

Particulars (Rs. Cr)	Q1FY19	Q1FY18	YoY	Q4FY18	QoQ
Revenue	**778**	**582**	**34%**	**721**	**8%**
COGS	491	356	38%	436	13%
As % of sales	***63.1%***	***61.2%***	***190 bps***	***60.5%***	***270 bps***
Employee Cost	124	104	19%	117	6%
As % of sales	*15.9%*	*17.9%*	*(200) bps*	*16.3%*	*(40) bps*
Other Expenses	90	77	17%	86	5%
As % of sales	*11.6%*	*13.3%*	*(170) bps*	*12.0%*	*(40) bps*
EBITDA	**73**	**44**	**65%**	**81.8**	**-11%**
Margin	***9.4%***	***7.6%***	***180 bps***	***11.4%***	***(200) bps***
Depreciation	21	16	30%	20	7%
Other income	5	3	85%	9	-47%
Interest	11	8	45%	11	4%
Exceptional Items	-	-		-	
PBT	46	23	98%	60	-24%
Provision for Tax	13	6	120%	17	-24%
Tax rate	*29%*	*26%*		*28%*	
PAT	32.7	17.2	90%	43.3	-25%
Profit share from JV	4.9	5.9	-16%	(4.7)	-205%
Cons. PAT	**37.6**	**24.6**	**53%**	**38.7**	-3%
Adj. EPS	1.66	1.18	41%	1.86	-10%

Source: Company Data, Nirmal Bang Research

Robust topline growth led by all major businesses:
- Safety, Security & Restraint +32%
- Driver Info & Telematics +32%
- Interior systems +42%

Inability to pass on the increase in raw material costs has impacted gross margins.

Better capacity utilization and operating leverage led to a 180 bps expansion in EBIDTA margins on YoY basis. Though, sequentially margin pressure is quite evident from the 200 bps decline from 11.4% to 9.4%

Expansion plans carried out in the last year and an increase in working capital have led to higher depreciation and interest costs respectively

Profit growth was thus marginally lower than EBITDA growth at 53%

Financials

P&L (Rs. Cr)	FY17	FY18	FY19E	FY20E
Revenues	**2060**	**2593**	**3288**	**3996**
% Growth	*21%*	*25.9%*	*26.8%*	*21.5%*
Operating Expense	1871	2321	2940	3545
EBITDA	**189**	**273**	**348**	**451**
EBITDA Margin	*9.2%*	*10.5%*	*10.6%*	*11.3%*
Depreciation	58	74	87	97
Other Income	41	16	20	20
Interest	27	37	55	65
Exceptional Items	0	0	0	0
PBT	**145**	**178**	**227**	**310**
Tax	29	50	68	90
MI & Profit of Ass.	(14)	13	21	27
PAT	102	142	181	247
Adj. PAT	**102**	**142**	**181**	**247**

Quarterly (Rs. Cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenues	**582**	**655**	**636**	**721**
EBITDA	**44**	**75**	**72**	**82**
Depreciation	16	19	19	20
EBIT	**28**	**56**	**52**	**62**
Interest	8	9	10	11
Other Income	3	2	3	9
PBT	23	50	45	60
Tax	6	14	12	17
Exceptional item	0	0	0	0
MI & profit of Ass.	6	7	5	(5)
PAT	**23**	**42**	**38**	**39**
Adj. PAT	**25**	**44**	**38**	**39**

Performance Ratio	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	9.2%	10.5%	10.6%	11.3%
PAT Margin (%)	5.0%	5.5%	5.5%	6.2%
ROE (%)	17.2%	20.8%	19.9%	18.4%
ROCE (%)	14.6%	16.0%	16.8%	17.8%
D/E (x)	1.0	1.0	0.8	0.6
Fixed Asset T/O Rat	0.4	0.5	0.5	0.4

Growth Ratios	FY17	FY18	FY19E	FY20E
Revenues	21%	26%	27%	22%
EBITDA	-11%	45%	28%	30%
PAT	-29%	39%	28%	37%

Per Share Data	FY17	FY18	FY19E	FY20E
Diluted EPS	4.5	6.3	8.0	10.9
Cash EPS	7.1	9.5	11.8	15.2
BV Per Share	27.5	32.6	47.9	58.3
Cash Per Share	1.5	1.2	12.1	10.3
Dividend Per Share	0.5	0.5	0.5	0.5

Turnover Ratio	FY17	FY18	FY19E	FY20E
Inventory Days	91	105	106	105
Debtors Days	66	80	82	84
Creditors Days	79	103	105	107

Balance Sheet (Rs. Cr)	FY17	FY18	FY19E	FY20E
Share Capital	41.6	41.6	45.2	45.2
Reserve & Surplus	580	696	1,037	1,272
Networth	**622**	**737**	**1,082**	**1,317**
Minoirty Interest	-	-	-	-
Long term Borrowings	184	280	330	280
Long term Liabilities	17	21	21	21
Long term Provision	18	18	18	18
Total Non-Current Liab.	**219**	**320**	**370**	**320**
Short term Borrowings	351	430	505	480
Trade Payable	264	441	584	723
Current Liabilities	84	112	126	141
Short term Provisions	16	19	23	27
Total Current Liabilities	**715**	**1,002**	**1,237**	**1,371**
Total Liabilites	**1,555**	**2,059**	**2,689**	**3,008**
Fixed Assets & CWIP	492	604	669	720
Goodwill on Consolidatic	112	124	124	124
Investments	126	139	128	117
Other non Curr. assets	41	64	73	84
Cash & Bank	33	26	274	233
Inventories	306	448	587	707
Debtors	374	571	741	923
Short term Advances	-	-	-	-
Other Current assets	70	84	92	100
Total Assets	**1,555**	**2,059**	**2,689**	**3,008**

Cash Flow (Rs. Cr)	FY17	FY18	FY19E	FY20E
Op. profit before WC	**180**	**273**	**348**	**451**
Change in WC	(124)	(82)	(167)	(161)
Less: Tax	(33)	(50)	(68)	(90)
CF from operations	**22**	**141**	**113**	**200**
Addition to assets	56	(186)	(152)	(148)
Investments	(121)	(14)	11	11
Others Income	46	16	20	20
CF from Investing	**(18)**	**(183)**	**(121)**	**(117)**
Issue of shares	-	-	310	-
Change in borrowings	71	96	125	(75)
Dividends paid	(10)	(10)	(11)	(11)
Interest paid	(41)	(37)	(55)	(65)
Others	(79)	(14)	(114)	27
CF from Financing	**(59)**	**34**	**255**	**(124)**
Net Change in cash	**(55)**	**(7)**	**248**	**(41)**
Cash at beginning	88	33	26	274
Cash at end	33	26	274	233

Valuation Ratio	FY17	FY18	FY19E	FY20E
Price/Earnings (x)	34.1	24.6	19.3	14.1
Price/BV (x)	5.6	4.7	3.2	2.6
Mkt cap/Sales (x)	1.1	1.2	1.1	0.9
EV/Sales (x)	1.3	1.5	1.2	1.0
EV/EBITDA (x)	19.2	14.2	11.6	8.9

Source: Company Data, Nirmal Bang Research

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