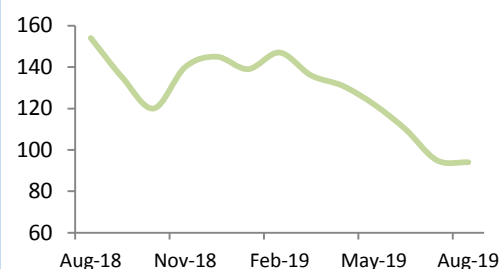


## Minda Corp Ltd.

Recommendation	Accumulate
CMP	Rs. 94
Target Price	Rs. 101
Sector	Auto Parts & Equipments

Stock Details	
BSE Code	538962
NSE Code	MINDACORP
Bloomberg Code	MDA IN
Market Cap (Rs. Cr)	2,127
Free Float (%)	30%
52 week High/Low (Rs.)	162/66
Avg. volume (BSE+NSE)	39193
Face Value (Rs.)	2
Dividend per share (Rs. – FY18)	0.6
Shares o/s (Crs)	22.72

Relative Performance	1Mth	3Mth	1Yr
<b>Minda Corp</b>	-1%	-23%	-39%
<b>Rel. to Sensex</b>	0%	-17%	-36%



Shareholding Pattern		June 2019
Promoters Holding		68.1%
Institutional (Incl. FII)		15.2%
Public & others		16.7%

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### Worsening state of industry impacts the company; yet India business manages to outperform

Revenue from operations for the company degrew by 9% YoY to Rs. 709 Cr vs Rs. 778 Cr YoY and Rs. 771 Cr QoQ. Adj. EBITDA margins (with respect to IND-AS 116) declined to 8.5% against 9.4% in Q1FY19 and 10.6% in Q4FY19 on the back of negative operating leverage. Net profit declined by 44% on YoY basis at Rs. 21 Cr vs Rs. 38 Cr.

#### Key Highlights for the quarter:

- India business increased by 1% while European operations continued to face challenges. Overall industry outlook has worsened in Q2FY20 from Q1FY20.
- Segmental revenue performance was as follows during the quarter -
  - Mechatronics & Aftermarket at 47% mix grew by 3% YoY,
  - Info & Connected Systems at 35% mix grew by 1% YoY and
  - Plastics & Interiors at 18% mix degrew by 38% YoY mainly led by decline in European business.
- Although reported EBITDA Margins were stable YoY at 9.5%, it was mainly due to the impact of IND-AS 116 which resulted in lower other expenses and higher depreciation and interest costs. Management has highlighted that EBITDA margins without this impact would have been 100 bps lower at 8.5% vs 9.4% in Q1FY19 and 10.6% in Q4FY19.
- Minda-KTSN EBITDA margins have declined from 6.5% to 0% YoY.
- Profits declined by 44% YoY and by 46% QoQ to Rs. 21.2 Cr. (Minda-KTSN incurred a loss of EUR 1 mn)

#### Valuation and Recommendation:

MCL has a diversified product base and strong clientele. The management has taken steps to improve profitability by undertaking cost rationalization measures and improving product mix with focus on high yield products. We expect MCL's top line to grow at over 1.5x the industry 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. **At CMP, MCL is trading at a PE of 13.9x FY21E earnings. Further, on the back of (i) growth expectations ahead of BS-6 (from Q3FY19), (ii) correction in stock price by 36% in the past six months and (iii) cheap valuations; we maintain 'Accumulate' on the stock with a target price of Rs. 101 (at 15x FY21E).**

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 (%)
FY18	2594	26%	273	10.5%	142	39%	6.3	15.0	9.7	20.9%
FY19	3092	19%	293	9.5%	157	11%	7.0	13.5	8.4	16.3%
FY20E	3046	-1%	304	10.0%	125	-21%	5.5	17.1	7.7	9.0%
FY21E	3331	9%	342	10.3%	153	22%	6.7	13.9	6.6	10.5%

## Quarterly Financial Snapshot

Particulars (Rs. Cr)	Q1FY20	Q1FY19	YoY	Q4FY19	QoQ
<b>Revenue</b>	<b>708</b>	<b>778</b>	<b>-9%</b>	<b>771</b>	<b>-8%</b>
COGS	424	491	-14%	457	-7%
<i>As % of sales</i>	<i>59.8%</i>	<i>63.1%</i>	<i>(330) bps</i>	<i>59.2%</i>	<i>63 bps</i>
Employee Cost	130	124	5%	127	2%
<i>As % of sales</i>	<i>18.3%</i>	<i>15.9%</i>	<i>242 bps</i>	<i>16.5%</i>	<i>178 bps</i>
Other Expenses	88	90	-3%	105	-16%
<i>As % of sales</i>	<i>12.4%</i>	<i>11.6%</i>	<i>81 bps</i>	<i>13.6%</i>	<i>(122) bps</i>
<b>EBITDA</b>	<b>67</b>	<b>73</b>	<b>-8%</b>	<b>82.1</b>	<b>-18%</b>
<b>Margin</b>	<b>9.5%</b>	<b>9.4%</b>	<b>6 bps</b>	<b>10.6%</b>	<b>(119) bps</b>
Depreciation	30	21	43%	24	25%
Other income	8	5	77%	7	20%
Interest	15	11	37%	13	15%
Exceptional Items	-	-	-	-	-
<b>Profit Before Tax</b>	<b>30</b>	<b>46</b>	<b>-34%</b>	<b>52</b>	<b>-42%</b>
<b>Margin</b>	<b>4.2%</b>	<b>5.9%</b>	<b>(164) bps</b>	<b>6.7%</b>	<b>(247) bps</b>
Provision for Tax	12	13	-11%	19	-39%
<i>Tax rate</i>	<i>39%</i>	<i>29%</i>	<i>1,027 bps</i>	<i>37%</i>	<i>212 bps</i>
PAT	18.4	32.7	-44%	32.8	-44%
Profit share from JV	2.8	4.9	-42%	6.3	-55%
<b>Cons. PAT</b>	<b>21.2</b>	<b>37.6</b>	<b>-44%</b>	<b>39.1</b>	<b>-46%</b>
Adj. EPS	0.9	1.7	-44%	1.7	-46%

Source: Company Data, Nirmal Bang Research

Topline degrowth was mainly led by the European businesses viz. the Plastics & Interiors business which degrew by 38%.

IND-AS 116 reporting has distorted like-to-like comparison of EBITDA margins; although management has stated the comparable margins as 8.5% for the quarter which is a 90 bps decline YoY and a 210 bps decline on QoQ basis. Decline in margins is mainly led by negative operating leverage.

### Conference call highlights & key takeaways

- Growth in Indian OEMs for the quarter was: PVs: -12%, 2W: -10%, CVs: -15%. MCL's India business grew at a faster pace at +1%.
- Although reported EBITDA Margins were stable YoY at 9.5%, it was mainly due to the impact of IND-AS 116 which resulted in lower other expenses and higher depreciation and interest costs. Management has highlighted that EBITDA margins without this impact would have been 100 bps lower at 8.5% vs 9.4% in Q1FY19 and 10.6% in Q4FY19. KTSN EBITDA margins have declined from 6.5% to 0% YoY.
- Top 4 clients include Bajaj Auto, M&M, Maruti & VW. None of them contribute more than 12% of sales.
- Capex for FY20 was earlier planned at Rs. 200 Cr and is likely to be reduced.
- Co is targeting to increase ROCE in the long term by (i) improving EBITDA margins gradually & (ii) improving Working Capital.
- MCL is expecting improvement in growth in H2FY20 based on its interactions with customers.
- MCL has initiated merger of wholly owned subsidiaries into the standalone co for which it has received the NCLT approval and thus the merger should happen soon. These subsidiaries include Minda SAI (wiring harness, dashboard, instrument clusters), Minda Automotive Solns. (aftermarket, locks), Minda Autoelektrik (reduction gear, starter motors and alternators for CVs), Minda Mangement, Minda Telematics (electric mobility solns. co recently acquired in Bangalore). The merger would result in cost savings on multiple counts like treasury operations, tax filings, audits, board of directors and dividend tax.
- We believe there are multiple growth drivers for MCL in coming years:
  - (i) Huge opportunity in 2W sensors being addressed through Minda-Stoneridge JV.
  - (ii) Transition from BS4 to BS6 will lead to a substantial increase in business for multiple products. Eg: In 2W wiring harness business where MCL enjoys more than 30% market share, revenue will increase by 3x (from Rs. 300 Cr to Rs. 900 Cr with an increase in realisations from Rs. 400 currently to Rs. 1200 (Minda Sai).
  - (iii) Interior plastics in India has a long runway for growth. MCL has the technology in this segment.
  - (iv) Exports to double in three years from Rs. 206 Cr in FY19 (were Rs. 174 Cr in FY18). Exports will mainly be driven by the diecasting business.
  - (v) Diecasting business has good growth potential along with 13% EBITDA margins at current capacity utilization levels of 70-75%. An increase in utilization levels shall further add to margins.
  - (vi) Acquisitions: QIP money raised in Q1FY19 (total cash at Rs. 350 Cr) will be kept as warchest for potential acquisitions which could happen in the next few quarters.

## Minda Corp Ltd.

## Financials

P&L (Rs. Cr)	FY17	FY18	FY19	FY20E	FY21E	Balance Sheet (Rs. Cr)	FY17	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>2060</b>	<b>2594</b>	<b>3092</b>	<b>3046</b>	<b>3331</b>	Share Capital	41.6	41.6	45.25	45.3	45.3
<b>% Growth</b>	<b>21%</b>	<b>26%</b>	<b>19%</b>	<b>-1%</b>	<b>9%</b>	Reserve & Surplus	580	696	1,145	1,258	1,399
Operating Expense	1871	2321	2800	2743	2989	<b>Networth</b>	<b>622</b>	<b>737</b>	<b>1,190</b>	<b>1,303</b>	<b>1,444</b>
<b>EBITDA</b>	<b>189</b>	<b>273</b>	<b>293</b>	<b>304</b>	<b>342</b>	Minority Interest	-	-	-	-	-
<b>EBITDA Margin</b>	<b>9.2%</b>	<b>10.5%</b>	<b>9.5%</b>	<b>10.0%</b>	<b>10.3%</b>	Long term Borrowings	184	280	146	141	134
Depreciation	58	74	88	122	132	Long term Liabilities	17	21	27	27	27
Other Income	41	16	36	36	40	Long term Provision	18	18	17	17	17
Interest	27	37	49	61	60	<b>Total Non-Current Liab</b>	<b>219</b>	<b>320</b>	<b>190</b>	<b>185</b>	<b>178</b>
Exceptional Items	0	0	(17)	0	0	Short term Borrowings	351	430	535	538	541
<b>PBT</b>	<b>145</b>	<b>178</b>	<b>208</b>	<b>156</b>	<b>189</b>	Trade Payable	264	441	410	537	598
<b>PBT Margin</b>	<b>7.0%</b>	<b>6.9%</b>	<b>6.7%</b>	<b>5.1%</b>	<b>5.7%</b>	Current Liabilities	84	112	114	128	143
Tax	29	50	67	50	61	Short term Provisions	16	19	17	20	24
MI & Profit of Ass.	(14)	13	28	19	24	<b>Total Current Liability:</b>	<b>715</b>	<b>1,002</b>	<b>1,076</b>	<b>1,223</b>	<b>1,307</b>
PAT	102	142	169	125	153	<b>Total Liabilities</b>	<b>1,555</b>	<b>2,059</b>	<b>2,456</b>	<b>2,711</b>	<b>2,929</b>
<b>Adj. PAT</b>	<b>102</b>	<b>142</b>	<b>157</b>	<b>125</b>	<b>153</b>	Fixed Assets & CWIP	492	604	633	626	626
<b>Quarterly (Rs. Cr)</b>	<b>Q1FY19</b>	<b>Q2FY19</b>	<b>Q3FY19</b>	<b>Q4FY19</b>	<b>Q1FY20</b>	Goodwill on Consolidat	112	124	120	120	120
<b>Revenues</b>	<b>778</b>	<b>773</b>	<b>769</b>	<b>771</b>	<b>708</b>	Investments	126	139	165	154	143
<b>EBITDA</b>	<b>73</b>	<b>82</b>	<b>55</b>	<b>82</b>	<b>67</b>	Other non Curr. assets	41	64	89	103	117
Depreciation	21	22	21	24	30	Cash & Bank	33	26	353	462	552
<b>EBIT</b>	<b>52</b>	<b>61</b>	<b>33</b>	<b>58</b>	<b>37</b>	Inventories	306	448	446	500	547
Interest	11	12	13	13	15	Debtors	374	571	546	628	687
Other Income	5	11	13	7	8	Short term Advances	-	-	-	-	-
PBT	46	59	34	52	30	Other Current assets	70	84	104	119	137
Tax	13	21	15	19	12	<b>Total Assets</b>	<b>1,555</b>	<b>2,059</b>	<b>2,456</b>	<b>2,711</b>	<b>2,929</b>
Exceptional item	0	0	(18)	0	0	<b>Cash Flow (Rs. Cr)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
MI & profit of Ass.	5	6	11	6	3	<b>Op. profit before WC</b>	<b>180</b>	<b>273</b>	<b>293</b>	<b>304</b>	<b>343</b>
<b>Adj. PAT</b>	<b>38</b>	<b>45</b>	<b>34</b>	<b>39</b>	<b>21</b>	Change in WC	(124)	(82)	(45)	(20)	(58)
<b>Performance Ratio</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	Less: Tax	(33)	(50)	(67)	(50)	(61)
EBITDA Margin (%)	9.2%	10.5%	9.5%	10.0%	10.3%	<b>CF from operations</b>	<b>22</b>	<b>142</b>	<b>181</b>	<b>233</b>	<b>224</b>
PAT Margin (%)	5.0%	5.5%	5.1%	4.1%	4.6%	Addition to assets	56	(186)	(117)	(115)	(132)
ROE (%)	17.2%	20.9%	16.3%	9.0%	10.5%	Investments	(121)	(14)	(26)	11	11
ROCE (%)	14.6%	16.1%	14.5%	10.5%	11.7%	Other Income	46	16	36	36	40
D/E (x)	1.0	1.0	0.6	0.5	0.5	<b>CF from Investing</b>	<b>(18)</b>	<b>(183)</b>	<b>(107)</b>	<b>(68)</b>	<b>(81)</b>
Fixed Asset T/O Rat	0.4	0.5	0.5	0.5	0.5	Issue of shares	-	-	310	-	-
<b>Growth Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	Change in borrowings	71	96	(30)	(2)	(4)
Revenues	21%	26%	19%	-1%	9%	Dividends paid	(10)	(10)	(11)	(11)	(11)
EBITDA	-11%	45%	7%	4%	13%	Interest paid	(41)	(37)	(49)	(61)	(60)
PAT	-29%	39%	11%	-21%	22%	Others	(79)	(14)	34	19	23
<b>Per Share Data</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>CF from Financing</b>	<b>(59)</b>	<b>34</b>	<b>253</b>	<b>(56)</b>	<b>(52)</b>
Diluted EPS	4.5	6.3	7.0	5.5	6.7	<b>Net Change in cash</b>	<b>(55)</b>	<b>(7)</b>	<b>327</b>	<b>109</b>	<b>91</b>
Cash EPS	7.1	9.5	10.9	10.9	12.6	Cash at beginning	88	33	26	353	462
BV Per Share	27.5	32.6	52.6	57.6	63.8	Cash at end	33	26	353	462	552
Cash Per Share	1.5	1.2	15.6	20.4	24.4	<b>Valuation Ratio</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
Dividend Per Share	0.5	0.5	0.5	0.5	0.5	Price/Earnings (x)	20.8	15.0	13.5	17.1	13.9
<b>Turnover Ratio</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	Price/BV (x)	3.4	2.9	1.8	1.6	1.5
Inventory Days	91	105	98	100	100	Mkt cap/Sales (x)	0.7	0.8	0.7	0.7	0.6
Debtors Days	66	80	73	75	75	EV/Sales (x)	0.9	1.0	0.8	0.8	0.7
Creditors Days	79	103	105	107	109	EV/EBITDA (x)	12.9	9.7	8.4	7.7	6.6

Source: Company Data, Nirmal Bang Research

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