Minda Corporation (MINCOR)

ICICI direct Research

CMP: ₹ 85 | Target: ₹ 105 (24%) | Target Period: 12 months | BUY

December 24, 2020

Hard calls taken, well poised to grow on clean state…

Minda Corporation (MCL) is the flagship company of the Spark Minda group and is a leading auto ancillary player supplying key auto components to domestic & global OEMs. Post its restructuring i.e. hive off of the European business, it has a well-diversified presence across segments with 2-W, CV, PV and aftermarket constituting ~53%, 23%, 10%, 14% of its sales (FY20), respectively. In terms of geographies, it realises ~85% of sales from India and rest ~15% from overseas. In terms of customer profile, the company counts all leading OEMs in India as its clients with top clients being Bajaj Auto, Ashok Leyland, TVS Motors, Suzuki Motors and M&M among others.

Triggers

Getting strategic intent right

MCL had a noticeable presence in the European market through its entity Minda KTSN, which was primarily involved in manufacturing of plastic body parts (interior) for PV segment with VW group as its anchor client. This division was struggling in the past with ~₹ 600 crore of sales in FY20 with corresponding EBITDA and PBT at ~₹ 4 crore and negative ₹ 46 crore, respectively, and was a big drag on consolidated financials (dragging down margins by ~2% and RoCE by ~5%). With no recovery in sight, the company pulled the plug on this entity, thereby stopping its funding as well as letting it go for liquidation under the application laws. We believe MCL has taken a hard call by letting off go the capital inefficient business that bodes well for minority shareholders over the long term. Separately, MCL has recently engaged with Phi Capital as its strategic investor (~5% stake). Given the rich auto industry experience at Phi Capital, we believe MCL will benefit with clear strategic future growth plans going forward.

Base business – minimal EV risk, premiumisation at play

Post its restructuring exercise, MCL realises ~55% of its consolidated sales ~₹ 1,200 crore from the Mechatronics division while it realises rest ~45% from Information & Connected System (wiring harness). In mechatronics segment, MCL is primarily in lock & key assembly for 2-W (22-25% of sales), die-casting (12-15% of sales), aftermarket sales (13-14% of sales) and starter motor/alternator for tractors (3% of sales). It realises ~15% EBITDA margins in this segment. In the lock & key assembly segment, Minda Corp commands market share of ~33-35% with content per vehicle in this sub-segment at ~₹ 400-450 per vehicle. Transition towards premium products like smart key is the fundamental driver for this division. In wiring harness segment, MCL is one of the leading wiring harness players with ~30%+ market share domestically. Total ~50% revenue of this segment comes from 2-Ws that have seen content increase to the tune of ~2-2.2x due to BS-VI transition. Rest ~40% revenues of this segment comes from CV space, which is on the cusp of a cyclical recovery while the rest ~10% is constituted by tractors. The present margin trajectory in this segment is in the range of ~7% with import content at ~30%. Increasing electronic content in automobiles and localisation of raw material are key fundamental drivers for this division.

Valuation & Outlook

With a history of capital efficient operations, net debt free B/S (September 2020) and presence across new model launches like Mahindra Thar & Bajaj Chetak, we believe the risk-reward is favourable at MCL. Hence, we assign a **BUY** rating. We value it at ₹ 105 i.e. 15x P/E on FY22E-23E average EPS of ₹ 7.0. We are enthused by MCL's intent to clock ~12% margins & ~20%+ RoIC in future and would closely monitor its forward journey, consistency in performance for any further upgrades in our fair value calculation.

SPARK MINDA Powered by Passion

Particulars

Particulars	Amount
Market capitalisation (₹ crore)	2,030
Debt (FY20, ₹ crore)	532
Cash & Inv. (FY20, ₹ crore)	472
EV (₹ crore)	2,090
52 Week High/Low (₹)	122/ 53
Equity capital (₹ crore)	47.7
Face value (₹)	2.0

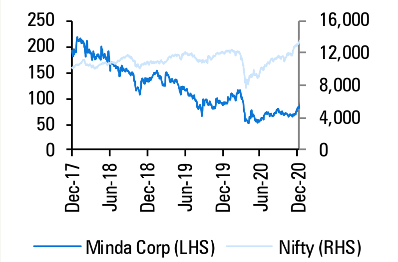
Key Highlights

- Leading auto ancillary player with capital efficient operations and net debt free B/S. It is well poised for profitable growth journey ahead post Minda KTSN hive-off
- Trades at inexpensive valuations i.e. ~11x P/E on FY23E. Risk- reward is favourable. We assign BUY rating

Risks to our call

1) Delay in margin recovery
2) Unrelated inorganic acquisition

Price performance



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I-direct Instinct

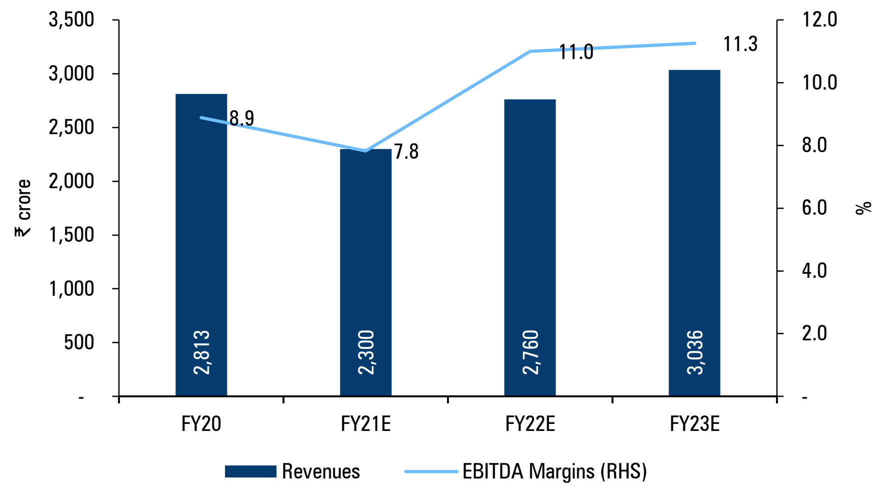
ICICI Securities – Retail Equity Research

Key Financial Summary				
P&L Account (₹ crore)	**FY20**	**FY21E**	**FY22E**	**FY23E**
Sales	2,813.1	2,300.0	2,760.0	3,036.0
EBITDA	249.9	180.0	303.6	341.6
EBITDA margin (%)	8.9	7.8	11.0	11.3
PAT	(199.8)	43.8	151.5	183.9
EPS (₹)	(8.8)	1.8	6.4	7.7
Balance Sheet (₹ crore)				
Equity	45.3	47.7	47.7	47.7
Net Worth	975.0	1,097.4	1,233.7	1,399.2
Gross Debt	532.0	482.0	432.0	382.0
Gross Debt: Equity (x)	0.5	0.4	0.4	0.3
Net Debt	60.0	(68.0)	(168.0)	(268.0)
Return Ratios (%)				
RoE	(20.5)	4.0	12.3	13.1
RoCE	8.8	4.4	11.0	11.9
RoIC	12.8	6.8	17.2	18.7
Valuations (x)				
P/E	NM	46.3	13.4	11.0
EV/EBITDA	8.4	10.9	6.1	5.2
P/B	2.1	1.9	1.6	1.5

Source: Company, ICICI Direct Research

Financial story in charts

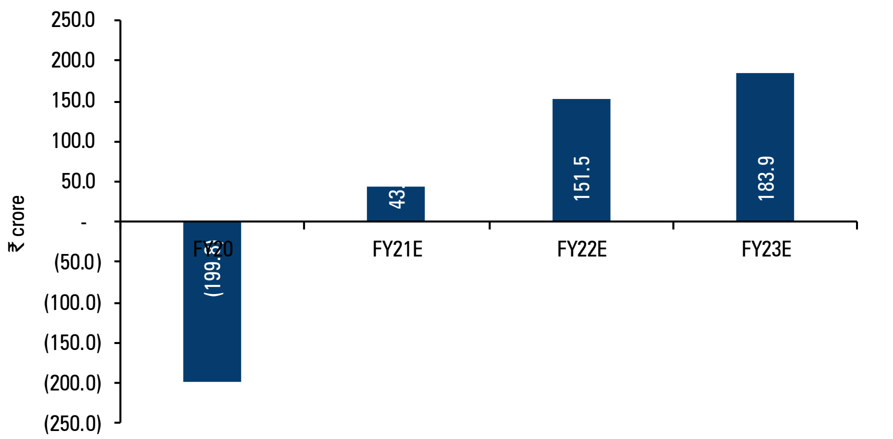
Exhibit 1: Trend in revenues and margins



Source: Company, ICICI Direct Research

Post restructuring and Covid impacting FY21E, revenues at MCL are seen growing at a CAGR of ~15% over FY21E-23E. Margins in the aforesaid period are seen improving to 11.3% by FY23E

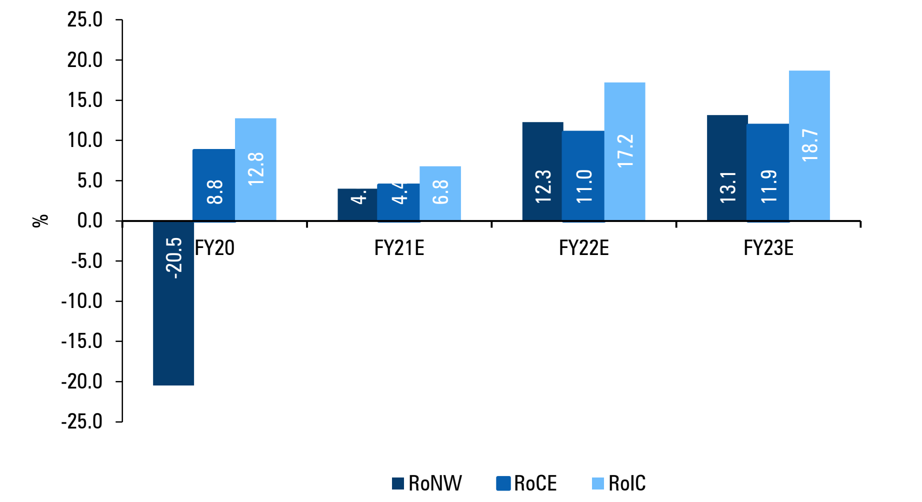
Exhibit 2: Trend in profitability (PAT)



Source: Company, ICICI Direct Research

MCL took an exceptional charge amounting to ~₹ 300 crore thereby writing off its equity investment in Minda KTSN in FY20. Consequently, it reported a loss of ~₹ 200 crore in FY20. Going forward, we expect it to clock a PAT of ~₹ 150 crore in FY22E and ~₹ 180 crore in FY23E

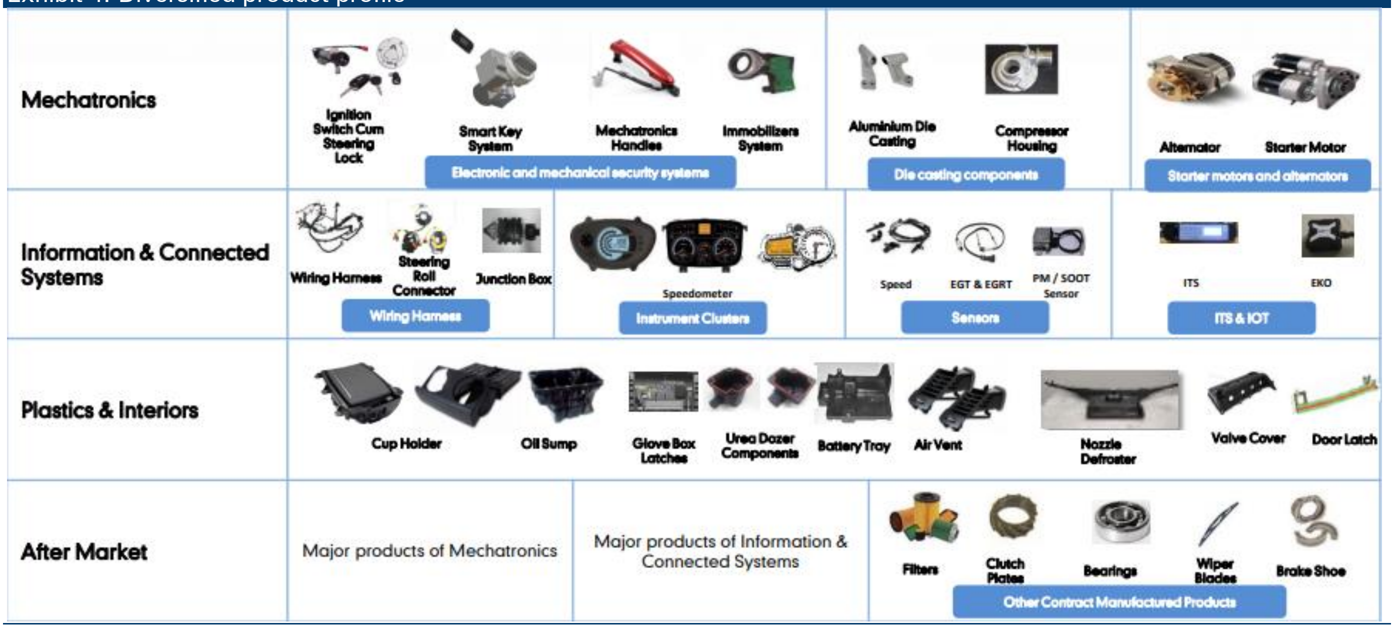
Exhibit 3: Trend in return ratios



Source: Company, ICICI Direct Research

MCL has a history of capital efficient operations. Going forward, post restructuring incurred in FY20, we expect capital efficiency to improve with MCL seen at clocking ~20% RoIC by FY23E

Exhibit 4: Diversified product profile



Source: Company, ICICI Direct Research

Exhibit 5: Customer profile

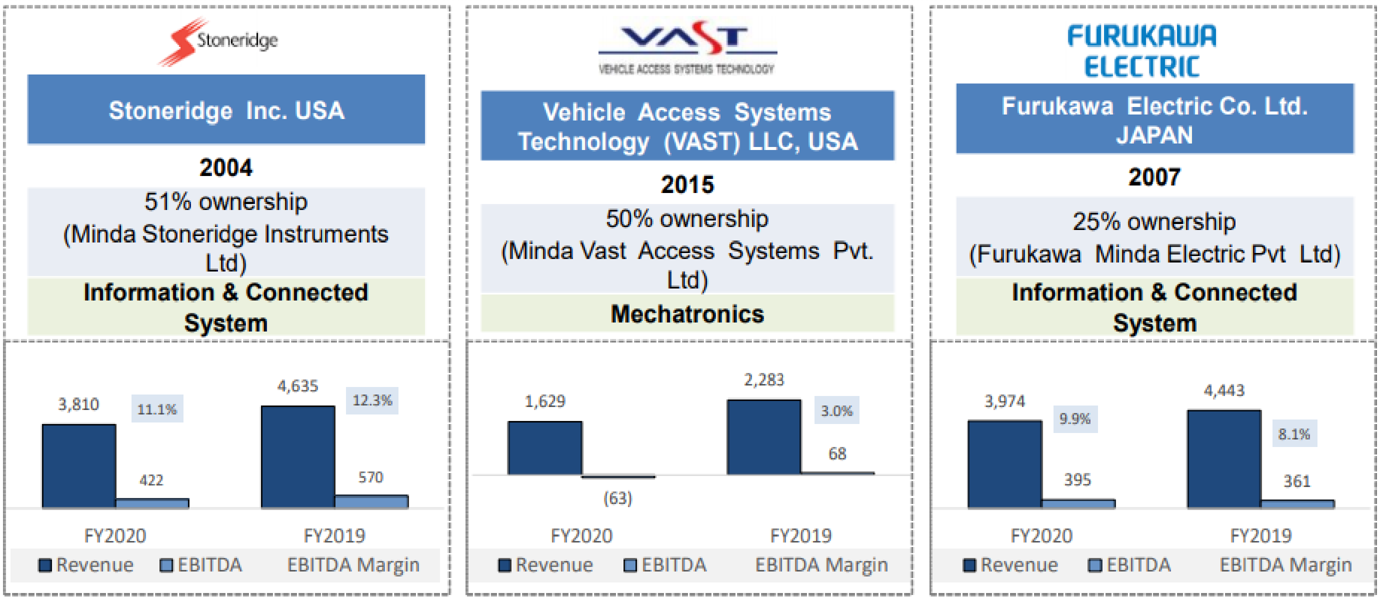
Source: Company, ICICI Direct Research

Exhibit 6: EV foray – commenced supplying some EV components to OEM's

Source: Company, ICICI Direct Research

Apart from the above segments, Minda Corporation has three JVs under which it manufactures: (i) Instrument Cluster (Minda Stoneridge, 51% stake), (ii) door handles for PV (Minda Vast, 50% stake) and (iii) wiring harness for the PV segment (Furukawa Minda, 25% stake).

Exhibit 7: Joint ventures



Source: Company, ICICI Direct Research; Note - The contribution of these JV's is accounted under profit from associates

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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