

Acquires stake in competitor as financial investment, strategic intent not dispelled, await more clarity...

About the stock: Minda Corporation (MCL) primarily serves auto OEMs across two main verticals – Mechatronics & Aftermarket [i.e. MCH – safety & security system (lock & key, smart key), die-casting, starter motors, etc] and Information & Connected Systems (i.e. ICS – mainly wiring harnesses, sensors and instrument clusters).

- FY22 segment mix –2-W ~49%, CV ~19%, PV ~18%, Aftermarket ~15%
- FY22 product mix – MCH ~57%, ICS ~43%. India ~84%, Exports ~16%

Key Highlights:

- MCL on Friday February 17, 2023 acquired 1.91 crore shares comprising ~15.7% of share capital of Pricol Ltd for ~₹ 400 crore (~₹ 209 per share) from open market stating it as financial investment transaction only
- **View:** We see less merit in this transaction to be just a financial investment and believe it to have a strategic intent to either acquire Pricol in full or seek controlling stake or buyout of the Instrument cluster division given the potential content increase in this domain and healthy technological capabilities and customer profile at Pricol. Since the valuations and quantum of further investments for this strategic intent cannot be ascertained at this point in time with risk of company overpaying for it and amid lack of clarity on further line of action in this domain, we downgrade the stock to HOLD

What should investors do? MCL's share price has been largely flattish over five years from ~₹ 195 in February 2018, underperforming the broader Nifty Auto Index.

- We have been positive on this space for quite some time given the company's endeavour to grow ahead of industry and development of new technological capabilities. However, we now downgrade the stock from BUY to HOLD amid lack of clarity on the company's strategic intent behind this investment in Pricol and b/s risk in case of any potential acquisition

Target Price and Valuation: Introducing FY25E and rolling over our valuations, we now value MCL at ₹ 230 i.e. 16x P/E on FY25E EPS (earlier target price ₹ 270).

Key triggers for future price performance:

- Robust orderbook with incremental wins in the EV space impart healthy revenue visibility. We build 23.3% (FY22-25E) consolidated sales CAGR
- Benign RM price outlook, operational efficiencies and localisation efforts to lead margin recovery, RoCE to 11.8%, 19.8%, respectively, by FY25E

Alternate Stock Idea: In our auto ancillary coverage we like Apollo Tyres.

- Focus on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 390



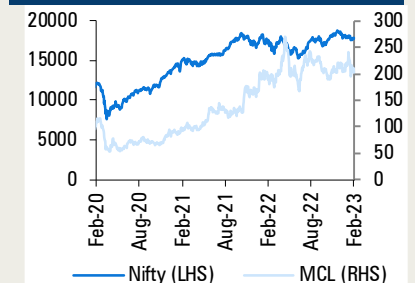
Particulars

Particulars	Amount
Market capitalisation (₹ crore)	4,896.4
Total Debt (FY22, ₹ crore)	391.4
Cash & Inv. (FY22, ₹ crore)	333.4
EV (₹ crore)	4,954.4
52 week H/L (₹)	287 / 164
Equity capital (₹ crore)	47.8
Face value (₹)	2.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	64.7	64.7	64.7	64.7
FII	4.5	3.7	4.4	3.6
DII	13.4	14.0	13.6	13.8
Other	17.4	17.6	17.3	17.8

Price Chart



Recent event & key risks

- Acquired 15.7% stake in Pricol
- **Key Risk:** (i) Overpaying for controlling stake in Pricol and consequent b/s stretch; (ii) More than anticipated localisation benefits and margin uptick

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	3,092.0	2,222.6	2,368.0	2,975.9	2.8%	4,329.7	4,980.0	5,577.6	23.3%
EBITDA	292.4	245.4	217.0	294.5	2.5%	466.0	560.3	655.4	30.6%
EBITDA Margins (%)	9.5	11.0	9.2	9.9		10.8	11.3	11.8	
Net Profit	169.2	(199.8)	52.8	191.9	-12.3%	219.6	282.2	342.8	21.4%
EPS (₹)	7.5	(8.8)	2.2	8.0		9.2	11.8	14.4	
P/E	27.4	(23.3)	92.7	25.5		22.3	17.4	14.3	
RoNW (%)	14.2	(20.5)	4.6	14.4		14.4	16.0	16.6	
RoCE (%)	10.8	10.5	7.5	10.5		15.9	18.1	19.8	

Source: Company, ICICI Direct Research; Note – FY20 numbers have been restated post exit from loss making European subsidiary and this report reflects these restated numbers

Quarterly results & key conference call highlights...

Q3FY23 Results: Posted steady set of numbers for Q3FY23.

- Topline came in at ~₹ 1,068 crore, down 6.9% QoQ
- EBITDA for the quarter came in at ~₹ 114 crore with corresponding margins at 10.7%, nearly flat sequentially
- Consequently, PAT came in at ₹ 52.3 crore, down 9.6% QoQ

Exhibit 1: TLA with LocoNav for telematics

Technology Partner for Telematics Software

About LocoNav
 Founded in 2015, LocoNav is an AI-driven full-stack technology company that provides telematics software, subscriptions and telematics devices.

LocoNav Capabilities – Smartest Fleet Tech Services and Solutions Ecosystem

- White Labelled Solutions
- ADAS + Driver Rating
- Fuel Monitoring & On-Board Diagnostics
- 15+ Countries Served
- 400K+ Assets Under Monitoring
- Integrated with 2200+ GPS Hardwares

Strategic Rationale

- Integration of Telematics Software with Spark Minda Telematics devices making us a "Complete Solution Provider"
- Faster Development, Time Tested, Lower Cost
- Increase in Kit Value of existing customers and access to new customers
- Opportunity to increase Aftermarket business

"Locally Developed Hardware and Software"

Telematics Features

OEM Perspective: Extensibility, COTA, FOTA & APIs; Scalability; Driver Behaviour & Analytics; Prognosis & Diagnostics.

End-user Perspective: Live tracking; Real time Alerts, Security Features & Vehicle Access; Geofencing; Reporting.

WEB, MOBILE APPS & API STACK

With this TLA Minda Corp is now positioned as a complete system provider in Telematics

Source: Company, ICICI Direct Research

Exhibit 2: Transforming product profile for upcoming technologies

Vehicle Access → **Intelligent & Smart**

- Smart PEPS
- Flush Door Systems
- Powered Lift Gate System
- Cyber Security & E/E Architecture

Wiring Harness & Connectors → **Electrical Distribution Systems**

- PDU & BDU
- EV HV Wiring Harness
- Smart Junction Box
- EV HV Connection System

Clusters & Sensors → **Connected & Safe Mobility**

- Large size TFT & Conn.Clusters
- Telematics
- Sensors for Safety, ADAS and EVs
- ADAS Systems

EV Low Power Electronics → **EV Drive Train**

- Motor & Motor Controller
- Battery Management System
- Onboard Chargers
- DC-DC Converter

Source: Company, ICICI Direct Research

Exhibit 3: Kit value journey in electric 2-W

Most of our Products are Electric Vehicle Agnostic

Potential EV Kit Value (in INR)

Legacy Content in ICE vehicles	4,000-4,500
Increase in content in Mechatronics for EV	2,000-3,000
Increase in content in Information and Connect System for EV	2,000-2,500
New Product under development from Electronic Manufacturing Excellence	8,000-10,000
Potential EV Kit Value	16,000-20,000

EV Customers: AMPERE by GREAVES, DANA, ASHOK LEYLAND, BALAJI, BGAUSS, BMW, HERO MotoCorp, VIRYA, HEROLELECTRIC, OAELECTRIC, REVOLT, TVS, POLARIS, ATHER, ULTRAVIOLETTE AUTOMOTIVE.

Source: Company, ICICI Direct Research

Q3FY23 Key conference call Highlights:

The management said exports are improving but still continue to witness some setbacks due to adverse macroeconomic set-up

The company, during the quarter, entered into technology licence agreement (TLA) with LocoNav for telematics software and has now become complete solution provider

The company operationalised its new wiring harness plant in Chakan, Pune

MCL continues to benefit from premiumisation trend leading to increased content per vehicle

The management informed about rural demand being weak on back of uneven monsoon, increased finance cost & tepid rural sentiments. Moving forward, the industry growth to be led by continued spends on infrastructure, improved fleet utilisation & profitability, a strong order book aided by a slew of new launches, rural demand pickup on the onset of harvesting season and expectation of better realisation of agri produce

The company won order for TFT cluster from key PV OEMs in India. The management expects raw material to remain at current levels in Q4FY23

Total debt was at ~₹ 417 crore as at December 31, 2022 (long term debt ~₹ 95 crore short term debt ₹ 322 crore). Current net debt was at ~₹ 56 crore as of December 31, 2022

Q4FY23 to be better than Q3FY23 but 2-W expected to be muted, going forward. Further, the company expects ~50-100 bps margin improvement in coming four to five quarters post ramp-up in its wiring harness plant, increased automation and localisation efforts

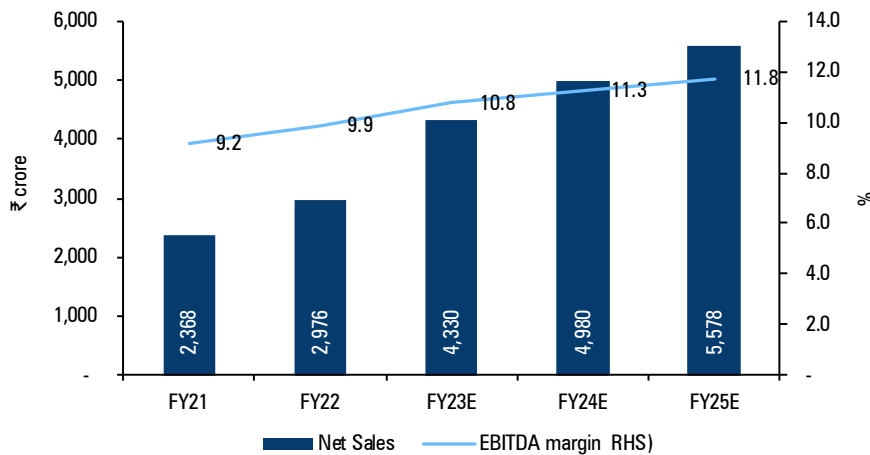
In wiring harness business 2-W, CV, PV contributes ~50%, 30%, 20%, respectively

Capacity utilisation in security, wiring harness, die casting, electronics was at 65%, 75%, 85%, 35%, respectively

Capex to remain at ~4-5% of topline of which ~2-3% goes to R&D, ~1-1.5% goes to maintenance and balance ~1.5-2% towards growth capex

Financial story in charts

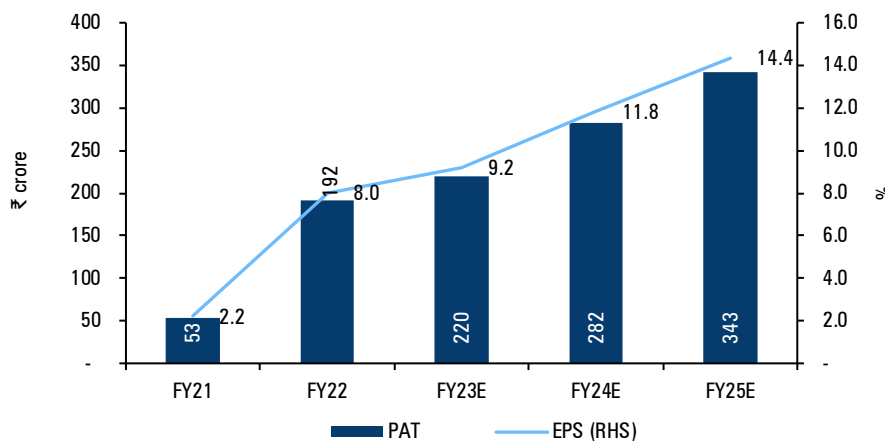
Exhibit 4: Topline and margin trend



We expect sales to grow at a CAGR of 23.3% over FY22-25E. Margins are seen climbing to 11.8% by FY25E on the back of operational efficiencies and localisation initiatives in the wiring harness space

Source: Company, ICICI Direct Research

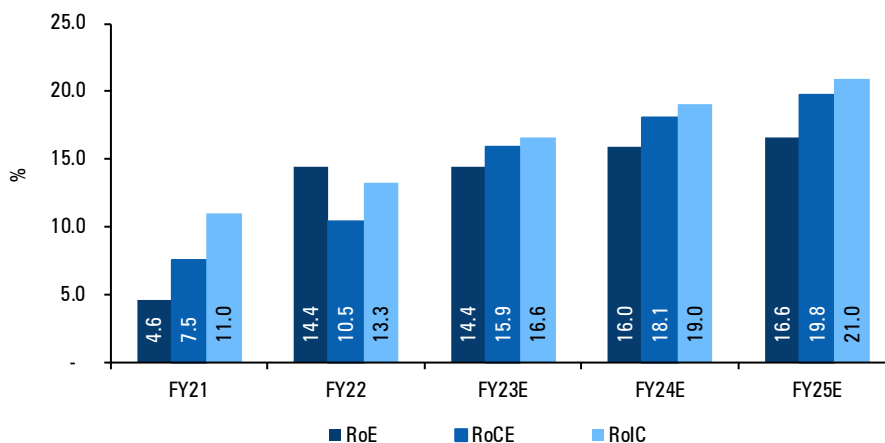
Exhibit 5: Trend in PAT and EPS



PAT is seen growing at 21.4% CAGR over FY22-25E on the back of higher sales and margin improvement

Source: Company, ICICI Direct Research

Exhibit 6: Trend in return ratios



The company is seen posting ~20% RoCE by FY25E with reading for RoI at ~21% in that time frame. Return ratios, however, are comfortably placed for the company at > 15%

Source: Company, ICICI Direct Research

Exhibit 7: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	2,223	(28.1)	(8.8)	(217.8)	NM	20.2	(20.5)	10.5
FY21	2,368	6.5	2.2	LP	92.7	22.5	4.6	7.5
FY22	2,976	25.7	8.0	263.2	25.5	16.8	14.4	10.5
FY23E	4,330	45.5	9.2	14.5	22.3	11.5	14.4	15.9
FY24E	4,980	15.0	11.8	28.5	17.4	9.4	16.0	18.1
FY25E	5,578	12.0	14.4	21.5	14.3	7.7	16.6	19.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Net Sales	2975.9	4329.7	4980.0	5577.6	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	2,975.9	4,329.7	4,980.0	5,577.6	
Growth (%)	25.7	45.5	15.0	12.0	
Raw Material Expenses	1,875.8	2,824.5	3,237.0	3,611.5	
Employee Expenses	474.2	612.9	684.8	753.0	
Other Operating Expense	331.4	426.4	498.0	557.8	
Total Operating Expenditure	2,681.4	3,863.7	4,419.8	4,922.3	
EBITDA	294.5	466.0	560.3	655.4	
Growth (%)	35.7	58.2	20.2	17.0	
Depreciation	112.0	138.6	161.9	189.6	
Interest	30.9	36.2	29.2	18.7	
Other Income	24.2	16.5	5.3	5.9	
PBT	175.7	307.8	374.5	453.0	
Excep. charge & P/L from Asso.	40.2	-9.4	2.0	4.0	
Total Tax	24.0	78.9	94.4	114.2	
PAT	191.9	219.6	282.2	342.8	
Growth (%)	263.2	14.5	28.5	21.5	
EPS (₹)	8.0	9.2	11.8	14.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	191.9	219.6	282.2	342.8	
Add: Depreciation	112.0	138.6	161.9	189.6	
(Inc)/dec in Current Assets	-224.8	-288.5	-175.5	-145.3	
Inc/(dec) in CL and Provisions	82.0	177.4	133.0	122.3	
Others	6.8	19.6	23.9	12.7	
CF from operating activities	167.9	266.7	425.4	522.2	
(Inc)/dec in Investments	12.5	-383.5	0.3	-4.1	
(Inc)/dec in Fixed Assets	-272.6	-216.5	-249.0	-278.9	
Others	56.2	-5.0	-5.0	-5.0	
CF from investing activities	-204.0	-605.0	-253.7	-288.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-90.6	125.0	-100.0	-150.0	
Interest and Dividend outgo	-54.8	-64.8	-65.0	-60.4	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	15.5	0.0	0.0	0.0	
CF from financing activities	-129.9	60.2	-165.0	-210.4	
Net Cash flow	-165.9	-278.0	6.7	23.8	
Opening Cash	499.4	333.4	55.4	62.1	
Closing Cash	333.4	55.4	62.1	85.8	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Liabilities					
Equity Capital	47.8	47.8	47.8	47.8	
Reserve and Surplus	1,282.3	1,473.2	1,719.5	2,020.6	
Total Shareholders funds	1,330.1	1,521.0	1,767.3	2,068.4	
Total Debt	391.4	516.4	416.4	266.4	
Deferred Tax Liability	17.3	17.3	17.3	17.3	
Minority Interest / Others	100.9	95.9	90.9	85.9	
Total Liabilities	1,839.7	2,150.7	2,292.0	2,438.0	
Assets					
Gross Block	1,136.5	1,355.5	1,584.5	1,863.4	
Less: Acc Depreciation	416.1	554.7	716.5	906.2	
Net Block	720.4	800.8	868.0	957.2	
Capital WIP	32.5	30.0	50.0	50.0	
Total Fixed Assets	752.9	830.8	918.0	1,007.2	
Investments & Goodwill	230.8	630.8	635.8	645.8	
Inventory	478.9	593.1	682.2	764.1	
Debtors	568.8	711.7	818.6	916.9	
Loans and Advances	73.4	85.1	73.0	53.8	
Other Current Assets	90.6	110.2	101.8	86.1	
Cash	333.4	55.4	62.1	85.8	
Total Current Assets	1,545.1	1,555.5	1,737.7	1,906.7	
Current Liabilities	686.8	852.6	977.1	1,091.5	
Provisions	45.5	57.0	65.6	73.5	
Current Liabilities & Prov	732.2	909.7	1,042.7	1,165.0	
Net Current Assets	812.8	645.8	695.0	741.7	
Others Assets	43.2	43.2	43.2	43.2	
Application of Funds	1,839.7	2,150.7	2,292.0	2,438.0	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Per share data (₹)					
EPS	8.0	9.2	11.8	14.4	
Cash EPS	12.7	15.0	18.6	22.3	
BV	55.7	63.7	74.0	86.6	
DPS	1.0	1.2	1.5	1.8	
Cash Per Share (Incl Invst)	14.0	2.3	2.6	3.6	
Operating Ratios (%)					
EBITDA Margin	9.9	10.8	11.3	11.8	
PAT Margin	6.4	5.1	5.7	6.1	
Inventory days	58.7	50.0	50.0	50.0	
Debtor days	69.8	60.0	60.0	60.0	
Creditor days	69.6	60.0	60.0	60.0	
Return Ratios (%)					
RoE	14.4	14.4	16.0	16.6	
RoCE	10.5	15.9	18.1	19.8	
RoIC	13.3	16.6	19.0	21.0	
Valuation Ratios (x)					
P/E	25.5	22.3	17.4	14.3	
EV / EBITDA	16.8	11.5	9.4	7.7	
EV / Net Sales	1.7	1.2	1.1	0.9	
Market Cap / Sales	1.6	1.1	1.0	0.9	
Price to Book Value	3.7	3.2	2.8	2.4	
Solvency Ratios					
Debt/EBITDA	1.3	1.1	0.7	0.4	
Debt / Equity	0.3	0.3	0.2	0.1	
Current Ratio	1.9	1.9	1.8	1.8	
Quick Ratio	1.2	1.1	1.1	1.0	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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