

**BUY**

TP: Rs 140 | ▲ 26%

**MINDA CORPORATION**

Auto Components

19 May 2021

## Healthy Q4; upgrade to BUY

Minda Corp's (MDA) Q4FY21 topline increased 7% QoQ to Rs 7.9bn. EBITDA margin beat our projections by 70bps to 11.2% and adj. PAT grew 9% QoQ to Rs 546mn. We remain bullish on MDA as better per-unit realisations, a strong order book and export momentum are expected to bolster profitability. We upgrade FY22/FY23 EPS by 20%/32% in light of the better margin performance and introduction of a new tax regime (25%). Our Mar'22 TP rises to Rs 140 (vs. Rs 110), set at an unchanged 16x P/E multiple. Upgrade from ADD to BUY.

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**Slight beat on operating performance:** MDA's Q4 revenue grew 7% QoQ to Rs 7.9bn. Gross margin declined 50bps QoQ as estimated, but below-expected employee and other expense (as a percentage of sales) supported a 70bps EBITDA margin beat to 11.2%. Adj. PAT grew 9% QoQ to Rs 546mn.

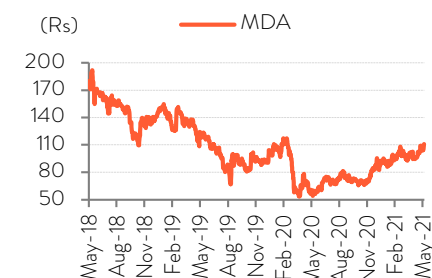
**Favourable sales mix to aid growth:** During FY21-FY23, we expect MDA's 2W business to grow at 9% CAGR, tractors at 6%, CVs at 34%, 3Ws at 20% and aftermarket business at 13%. We also model for a 20% CAGR in exports over the same period. With stronger margins from an improving sale mix as well as higher contribution from joint ventures, we expect the company's growth momentum to continue.

**Upgrade to BUY:** We revise our EBITDA margin forecast for FY23 from 10.5% to 11% on the back of a better sales mix. We also align the company's tax rate to the new regime of 25%. Accordingly, our earnings estimates for FY22/FY23 rise by 20%/32%. Based on these revisions, we now expect MDA to clock a revenue/PAT CAGR of 16%/53% over FY21-FY23, in line with consensus. Our Mar'22 TP stands increased to Rs 140 (from Rs 110), based on 16x FY23E P/E (~5yr avg) – upgrade from ADD to BUY.

|                  |               |
|------------------|---------------|
| Ticker/Price     | MDA IN/Rs 111 |
| Market cap       | US\$ 344.4mn  |
| Shares o/s       | 227mn         |
| 3M ADV           | US\$ 1.1mn    |
| 52wk high/low    | Rs 114/Rs 54  |
| Promoter/FPI/DII | 68%/9%/5%     |

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

| Y/E 31 Mar              | FY19A  | FY20A  | FY21P  | FY22E  | FY23E  |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn)   | 30,920 | 28,131 | 23,679 | 28,261 | 31,716 |
| EBITDA (Rs mn)          | 2,941  | 2,499  | 2,170  | 2,930  | 3,499  |
| Adj. net profit (Rs mn) | 1,692  | 935    | 935    | 1,714  | 2,090  |
| Adj. EPS (Rs)           | 7.5    | 4.1    | 3.9    | 7.2    | 8.7    |
| Adj. EPS growth (%)     | 8.9    | (44.7) | (5.2)  | 83.2   | 22.0   |
| Adj. ROAE (%)           | 14.2   | 9.6    | 8.2    | 13.5   | 14.8   |
| Adj. P/E (x)            | 14.8   | 26.8   | 28.3   | 15.5   | 12.7   |
| EV/EBITDA (x)           | 8.6    | 8.7    | 8.7    | 6.7    | 5.8    |

Source: Company, BOBCAPS Research | P – Provisional

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Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

| (Rs mn)                         | Q4FY21       | Q4FY20       | YoY (%)      | Q3FY21       | QoQ (%)    | FY21          | FY20          | YoY (%)       |
|---------------------------------|--------------|--------------|--------------|--------------|------------|---------------|---------------|---------------|
| Net Revenues                    | 7,941        | 6,979        | 13.8         | 7,398        | 7.3        | 23,680        | 28,131        | (15.8)        |
| <b>Total Income (A)</b>         | <b>7,941</b> | <b>6,979</b> | <b>13.8</b>  | <b>7,398</b> | <b>7.3</b> | <b>23,680</b> | <b>28,131</b> | <b>(15.8)</b> |
| <b>Operating Expenses:</b>      |              |              |              |              |            |               |               |               |
| Raw materials consumed          | 5,017        | 4,241        | 18.3         | 4,636        | 8.2        | 14,926        | 16,991        | (12.2)        |
| Employee Expenses               | 1,185        | 1,311        | (9.6)        | 1,139        | 4.1        | 3,827         | 5,027         | (23.9)        |
| Other Expenses                  | 849          | 1,043        | (18.6)       | 806          | 5.3        | 2,757         | 3,614         | (23.7)        |
| <b>Total Expenditure (B)</b>    | <b>7,051</b> | <b>6,594</b> | <b>6.9</b>   | <b>6,580</b> | <b>7.2</b> | <b>21,509</b> | <b>25,632</b> | <b>(16.1)</b> |
| <b>EBITDA (A-B)</b>             | <b>890</b>   | <b>385</b>   | <b>131.1</b> | <b>818</b>   | <b>8.8</b> | <b>2,170</b>  | <b>2,499</b>  | <b>(13.2)</b> |
| Other Income                    | 72           | 143          | (49.4)       | 97           | (25.4)     | 332           | 567           | (41.5)        |
| Depreciation                    | 242          | 302          | (19.9)       | 244          | (0.9)      | 936           | 1,179         | (20.6)        |
| EBIT                            | 720          | 226          | 218.4        | 671          | 7.3        | 1,566         | 1,888         | (17.1)        |
| Finance Costs                   | 76           | 138          | (44.7)       | 96           | (20.6)     | 358           | 499           | (28.2)        |
| PBT before excep items          | 644          | 89           | 627.9        | 575          | 12.0       | 1,208         | 1,389         | (13.0)        |
| Exceptional items               | (417)        | (2,933)      | NA           | -            | NA         | (407)         | (1,633)       | NA            |
| PBT after excep items           | 1,061        | 3,021        | (64.9)       | 575          | 84.4       | 1,615         | 3,021         | (46.6)        |
| Tax expense                     | 156          | 153          | 1.6          | 133          | 17.4       | 307           | 454           | (32.3)        |
| Share of profit from Associates | 57           | -            |              | 57           |            | 39            | -             | NA            |
| Reported PAT                    | 963          | 2,868        | (66.4)       | 499          | 92.8       | 1,347         | 2,568         | (47.5)        |
| <b>Adjusted PAT</b>             | <b>546</b>   | <b>(65)</b>  | <b>NA</b>    | <b>499</b>   | <b>9.4</b> | <b>940</b>    | <b>935</b>    | <b>0.5</b>    |
| <b>EPS (Rs)</b>                 | <b>2.4</b>   | <b>(0.3)</b> | <b>NA</b>    | <b>2.2</b>   | <b>9.4</b> | <b>4.1</b>    | <b>3.8</b>    | <b>8.0</b>    |

Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

| (%)            | Q4FY21 | Q4FY20 | YoY (bps) | Q3FY21 | QoQ (bps) | FY21 | FY20 | YoY (bps) |
|----------------|--------|--------|-----------|--------|-----------|------|------|-----------|
| Gross margin   | 36.8   | 39.2   | (243)     | 37.3   | (53)      | 37.0 | 39.6 | (263)     |
| EBITDA margin  | 11.2   | 5.5    | 569       | 11.1   | 15        | 9.2  | 8.9  | 28        |
| EBIT margin    | 9.1    | 3.2    | 583       | 9.1    | 0         | 6.6  | 6.7  | (10)      |
| PBT margin     | 8.1    | 1.3    | 684       | 7.8    | 34        | 5.1  | 4.9  | 16        |
| Tax rate       | 14.7   | 5.1    | 960       | 23.1   | (838)     | 19.0 | 10.5 | 851       |
| Adj PAT margin | 6.9    | (0.9)  | 780       | 6.7    | 13        | 4.0  | 3.3  | 65        |

Source: Company, BOBCAPS Research

### Valuation methodology

We revise our EBITDA margin forecast for FY23 from 10.5% to 11% on the back of a better sales mix. We also align MDA’s tax rate to the new regime of 25%. Accordingly, our earnings estimates for FY22/FY23 rise by 20%/32%. Based on these revisions, we now expect the company to clock a revenue/PAT CAGR of 16%/53% over FY21-FY23, broadly in line with consensus. ROCE/ROE are also projected to improve sharply from the current 6%/9% to 12%/16% by FY23-end.

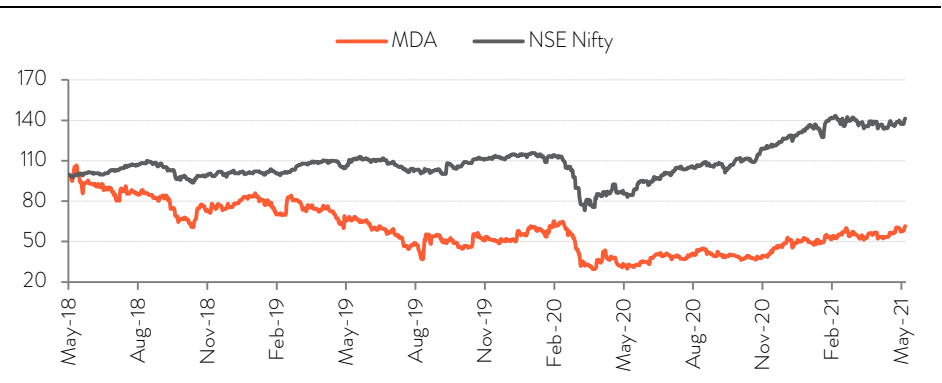
Following the increase in estimates, we raise our Mar’22 target price to Rs 140 (from Rs 110) and upgrade our rating from ADD to BUY. We continue to value MDA at 16x FY23E P/E, in line with the stock’s five-year average.

**FIG 3 – REVISED ESTIMATES**

| (Rs mn)  | New    |        | Old    |        | Change (%) |       |
|----------|--------|--------|--------|--------|------------|-------|
|          | FY22E  | FY23E  | FY22E  | FY23E  | FY22E      | FY23E |
| Revenues | 28,261 | 31,716 | 29,092 | 31,646 | (2.9)      | 0.2   |
| EBITDA   | 2,930  | 3,499  | 2,975  | 3,313  | (1.5)      | 5.6   |
| OPM (%)  | 10.4   | 11.0   | 10.2   | 10.5   | 14bps      | 56bps |
| Adj. PAT | 1,714  | 2,090  | 1,433  | 1,584  | 19.6       | 32.0  |
| EPS (Rs) | 7.2    | 8.7    | 5.8*   | 6.6*   | 19.6       | 32.0  |

Source: Company, BOBCAPS Research | \*Adjusted for new outstanding share base

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

Downside risks to our estimates include:

- below-expected volume growth, and
- loss in wallet share with key customers.

## FINANCIALS

### Income Statement

| Y/E 31 Mar (Rs mn)             | FY19A         | FY20A          | FY21P         | FY22E         | FY23E         |
|--------------------------------|---------------|----------------|---------------|---------------|---------------|
| <b>Total revenue</b>           | <b>30,920</b> | <b>28,131</b>  | <b>23,679</b> | <b>28,261</b> | <b>31,716</b> |
| EBITDA                         | 2,941         | 2,499          | 2,170         | 2,930         | 3,499         |
| Depreciation                   | 883           | 1,179          | 936           | 994           | 1,156         |
| EBIT                           | 2,868         | 1,764          | 1,566         | 2,308         | 2,745         |
| Net interest income/(expenses) | (507)         | (499)          | (358)         | (285)         | (285)         |
| Other income/(expenses)        | 810           | 443            | 332           | 372           | 402           |
| Exceptional items              | (117)         | (2,933)        | (407)         | 0             | 0             |
| EBT                            | 2,244         | (1,668)        | 800           | 2,023         | 2,460         |
| Income taxes                   | 669           | 454            | 312           | 510           | 620           |
| Extraordinary items            | 0             | 0              | 0             | 0             | 0             |
| Min. int./Inc. from associates | 0             | 0              | 0             | 0             | 0             |
| <b>Reported net profit</b>     | <b>1,575</b>  | <b>(1,998)</b> | <b>528</b>    | <b>1,714</b>  | <b>2,090</b>  |
| Adjustments                    | 117           | 2,933          | 407           | 0             | 0             |
| <b>Adjusted net profit</b>     | <b>1,692</b>  | <b>935</b>     | <b>935</b>    | <b>1,714</b>  | <b>2,090</b>  |

### Balance Sheet

| Y/E 31 Mar (Rs mn)                    | FY19A         | FY20A         | FY21P         | FY22E         | FY23E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables                     | 4,159         | 5,093         | 4,847         | 4,932         | 5,176         |
| Other current liabilities             | 952           | 928           | 2,263         | 2,556         | 2,973         |
| Provisions                            | 250           | 1,155         | 355           | 355           | 355           |
| Debt funds                            | 6,806         | 6,427         | 4,069         | 4,069         | 4,069         |
| Other liabilities                     | 218           | 34            | 329           | 329           | 329           |
| Equity capital                        | 500           | 500           | 525           | 525           | 525           |
| Reserves & surplus                    | 11,451        | 9,250         | 10,941        | 12,140        | 13,604        |
| Shareholders' fund                    | 11,951        | 9,750         | 11,466        | 12,666        | 14,129        |
| <b>Total liabilities and equities</b> | <b>24,336</b> | <b>23,386</b> | <b>23,329</b> | <b>24,905</b> | <b>27,030</b> |
| Cash and cash eq.                     | 3,530         | 4,724         | 4,943         | 4,903         | 4,926         |
| Accounts receivables                  | 5,464         | 3,898         | 4,420         | 4,491         | 5,040         |
| Inventories                           | 4,464         | 3,949         | 3,959         | 4,258         | 4,779         |
| Other current assets                  | 1,035         | 1,021         | 1,622         | 1,662         | 1,670         |
| Investments                           | 1,650         | 1,761         | 1,805         | 2,305         | 2,805         |
| Net fixed assets                      | 7,316         | 7,629         | 6,127         | 6,811         | 7,355         |
| CWIP                                  | 210           | 285           | 178           | 200           | 180           |
| Intangible assets                     | 0             | 0             | 0             | 0             | 0             |
| Deferred tax assets, net              | (84)          | (30)          | (34)          | (34)          | (34)          |
| Other assets                          | 751           | 149           | 310           | 310           | 310           |
| <b>Total assets</b>                   | <b>24,336</b> | <b>23,386</b> | <b>23,329</b> | <b>24,905</b> | <b>27,030</b> |

Source: Company, BOBCAPS Research

**Cash Flows**

| Y/E 31 Mar (Rs mn)                  | FY19A        | FY20A          | FY21P          | FY22E          | FY23E          |
|-------------------------------------|--------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation           | 2,575        | 2,114          | 1,872          | 2,707          | 3,246          |
| Interest expenses                   | 507          | 499            | 358            | 285            | 285            |
| Non-cash adjustments                | (810)        | (443)          | (332)          | (372)          | (402)          |
| Changes in working capital          | (403)        | 4,327          | (708)          | (33)           | (416)          |
| Other operating cash flows          | 38           | (3,018)        | 0              | 0              | 0              |
| <b>Cash flow from operations</b>    | <b>1,907</b> | <b>3,479</b>   | <b>1,190</b>   | <b>2,587</b>   | <b>2,713</b>   |
| Capital expenditures                | (1,135)      | (1,567)        | 673            | (1,700)        | (1,680)        |
| Change in investments               | (257)        | (111)          | (43)           | (500)          | (500)          |
| Other investing cash flows          | 810          | 443            | 332            | 372            | 402            |
| <b>Cash flow from investing</b>     | <b>(582)</b> | <b>(1,235)</b> | <b>962</b>     | <b>(1,828)</b> | <b>(1,778)</b> |
| Equities issued/Others              | 3,064        | 6              | 25             | 0              | 0              |
| Debt raised/repaid                  | (426)        | (379)          | (2,359)        | 0              | 0              |
| Interest expenses                   | (507)        | (499)          | (358)          | (285)          | (285)          |
| Dividends paid                      | (96)         | (199)          | (148)          | (514)          | (627)          |
| Other financing cash flows          | (91)         | 21             | 907            | 0              | 0              |
| <b>Cash flow from financing</b>     | <b>1,944</b> | <b>(1,050)</b> | <b>(1,932)</b> | <b>(799)</b>   | <b>(912)</b>   |
| <b>Changes in cash and cash eq.</b> | <b>3,269</b> | <b>1,194</b>   | <b>220</b>     | <b>(40)</b>    | <b>23</b>      |
| <b>Closing cash and cash eq.</b>    | <b>3,530</b> | <b>4,724</b>   | <b>4,943</b>   | <b>4,903</b>   | <b>4,926</b>   |

**Per Share**

| Y/E 31 Mar (Rs)      | FY19A | FY20A | FY21P | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 7.5   | 4.1   | 3.9   | 7.2   | 8.7   |
| Adjusted EPS         | 7.5   | 4.1   | 3.9   | 7.2   | 8.7   |
| Dividend per share   | 0.3   | 0.8   | 0.6   | 2.1   | 2.6   |
| Book value per share | 52.8  | 43.0  | 48.0  | 53.0  | 59.1  |

**Valuations Ratios**

| Y/E 31 Mar (x) | FY19A | FY20A | FY21P | FY22E | FY23E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 0.8   | 0.8   | 0.8   | 0.7   | 0.6   |
| EV/EBITDA      | 8.6   | 8.7   | 8.7   | 6.7   | 5.8   |
| Adjusted P/E   | 14.8  | 26.8  | 28.3  | 15.5  | 12.7  |
| P/BV           | 2.1   | 2.6   | 2.3   | 2.1   | 1.9   |

**DuPont Analysis**

| Y/E 31 Mar (%)                  | FY19A | FY20A  | FY21P | FY22E | FY23E |
|---------------------------------|-------|--------|-------|-------|-------|
| Tax burden (Net profit/PBT)     | 75.4  | (56.1) | 116.9 | 84.7  | 85.0  |
| Interest burden (PBT/EBIT)      | 78.2  | (94.6) | 51.1  | 87.7  | 89.6  |
| EBIT margin (EBIT/Revenue)      | 9.3   | 6.3    | 6.6   | 8.2   | 8.7   |
| Asset turnover (Revenue/Avg TA) | 182.6 | 159.9  | 147.7 | 171.7 | 178.2 |
| Leverage (Avg TA/Avg Equity)    | 1.7   | 1.6    | 1.5   | 1.4   | 1.3   |
| Adjusted ROAE                   | 17.5  | 8.6    | 8.8   | 14.2  | 15.6  |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

| Y/E 31 Mar                                   | FY19A | FY20A  | FY21P  | FY22E | FY23E |
|--|-------|--------|--------|-------|-------|
| <b>YoY growth (%)</b>                        |       |        |        |       |       |
| Revenue                                      | 19.2  | (9.0)  | (15.8) | 19.3  | 12.2  |
| EBITDA                                       | 6.7   | (15.0) | (13.2) | 35.0  | 19.4  |
| Adjusted EPS                                 | 8.9   | (44.7) | (5.2)  | 83.2  | 22.0  |
| <b>Profitability &amp; Return ratios (%)</b> |       |        |        |       |       |
| EBITDA margin                                | 9.5   | 8.9    | 9.2    | 10.4  | 11.0  |
| EBIT margin                                  | 9.3   | 6.3    | 6.6    | 8.2   | 8.7   |
| Adjusted profit margin                       | 5.5   | 3.3    | 3.9    | 6.1   | 6.6   |
| Adjusted ROAE                                | 14.2  | 9.6    | 8.2    | 13.5  | 14.8  |
| ROCE   | 11.9  | 12.8   | 6.0    | 10.5  | 11.5  |
| <b>Working capital days (days)</b>           |       |        |        |       |       |
| Receivables                                  | 66    | 61     | 64     | 58    | 55    |
| Inventory                                    | 53    | 55     | 61     | 53    | 52    |
| Payables                                     | 83    | 99     | 122    | 100   | 92    |
| <b>Ratios (x)</b>                            |       |        |        |       |       |
| Gross asset turnover                         | 0.0   | 0.0    | 0.0    | 0.0   | 0.0   |
| Current ratio                                | 2.7   | 1.9    | 2.0    | 2.0   | 1.9   |
| Net interest coverage ratio                  | (5.7) | (3.5)  | (4.4)  | (8.1) | (9.6) |
| Adjusted debt/equity                         | 0.6   | 0.7    | 0.4    | 0.3   | 0.3   |

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

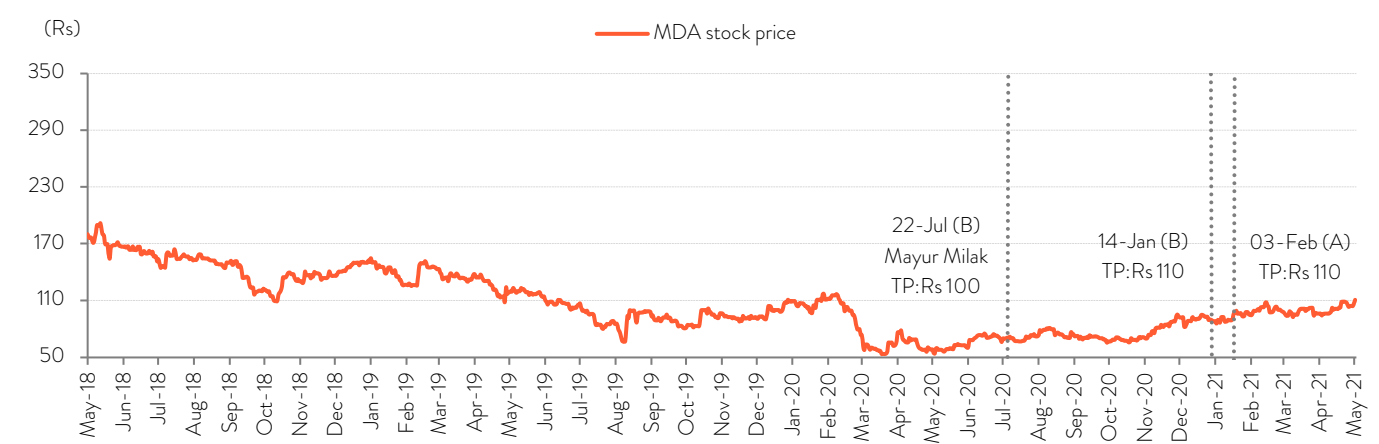
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): MINDA CORPORATION (MDA IN)



B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

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