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Minda Corporation Ltd. (MCL) – Analyst meet update

Mar. 05, 2019

CMP: Rs. 150, FV: Rs. 2, Market Cap: Rs. 3,417 crores, EPS (TTM): Rs. 7.35, P/E: 20x, FY18 topline: Rs. 3,659 crores, Target price: Rs. 175, upside: 17%

Price movement chart



Source: Moneycontrol

The group was founded by Late Sh. S.L. Minda in 1958. The Company operates in four business verticals

- Safety Security and Restraint System (SSR) – 45.9% of 9MFY19 topline
(Smart key system, door handles, locksets, electronic steering column lock and immobilizer etc.)
- Driver Information and Telematics System (DIS) – 33.3% of 9MFY19 topline
(Instrument cluster – Digital meters, wiring harness, high quality sensors, reverse parking sensor, smart navigation system, motor controller, Intelligent Remote Ingress Start System, starters & alternators, connectors integrated starter generator, motor controller etc.)
- Interior Systems – 20.8% of 9MFY19 topline
(Moulded plastic parts which make up the interiors of a vehicle like Cup Holder, Arm rest, Glove box etc.)

The Company has 34 manufacturing facilities (India: 28, Europe: 3, South East Asia: 2, North America: 1) with an employee base of 16,000+.

Minda Corporation is one of the largest suppliers of electronic & mechanical security system to 2 wheelers, 3 wheelers and off-road vehicles.

Key customers

Ashok Leyland, Bajaj Auto, CNH, Hero Moto Corp, , Honda Motorcycle and Scooter India, Mahindra & Mahindra, Maruti Suzuki, Suzuki Motorcycle, TVS Motor, Tata Motors, VE Commercial Vehicles, Volkswagen, Yamaha Motor



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R&D capabilities

Advanced Engineering Centre of Electronics & Mechatronics in Pune and multiple specialised R&D Centre across India - Spark Minda Technical Centre (SMIT), an advanced engineering centre of electronics & mechatronics of the group will play a crucial role in new product development.

Current market position

- a) Market leader in India for locksets in 2W segment (> 30 percent market share)
- b) Market leader for wiring harness in CV, 2W and Tractor segment in India (>30% market share each)
- c) Market leader in India for Instrument Clusters, Commercial vehicle segment (>60% market share)
- d) Market leader for Instrument Clusters in 3W and tractor segment in India (>60% market share each)

Safety, Security & Restraint System

Minda Corporation Limited is one of the largest suppliers of Electronic & Mechanical Security System to 2 wheelers, 3 wheelers and Off-road Vehicles. It is a diversified company with a product portfolio encompassing from Mechanical & Electronic Security System and Electronic Controllers for Electric Vehicles for Auto OEMs across the Globe.

The company exports about 20% of its products to USA, UK, Europe & South East Asia and ASEAN countries.

It is the only company in India to have its own patented Magnetic Shutters for 2 wheeler application. To enhance the vehicle security, it manufactures Lock Sets with conventional keys, 2 Track Keys, 4 Track Keys & Snake Biting Keys for 2 Wheeler Applications. The company designs & manufactures: Immobilizers, Answerback / Vehicle Locator Detection unit, Low cost remote based immobiliser & Smart Key security system for 2 wheeled vehicle applications and also has patent for the Immobilizer application for vehicles operating with drained or no battery condition.

Growth drivers

- e) Increasing content per vehicle (content per vehicle by ~4x for 2W; ~2x for 3W, CV & PV; and ~1.5x for tractors over FY18-22.
- f) Shift from BS IV to BS VI (The upcoming Bharat Stage VI implementation is expected to augur well for the company as it will lead to higher content per vehicle. In fact, it received new orders to supply BS VI compliant instrument clusters and EFI wiring to a 2W original equipment manufacturer (OEM) with peak annual value of Rs. 25 crore and Rs. 30 crore, respectively. It also received business from a Japanese manufacturer for the supplies of die casted parts for its fuel injection pump in accordance with BS VI requirements.)
- g) Building electric capabilities
- h) Premiumisation
- i) Shift from component to module/system supplier
- j) Adopting the changeover from existing technology to new technology
- k) Integration with EV and automated vehicles

Outperforming the industry growth - 21.5 percent CAGR (FY17 to LTM Dec 19)

Consistently outperformed industry growth over the years through

- a) New products in existing customers
- b) New customers with existing products
- c) New customers with new products
- d) Export remained a focus area over the past few years. In Aluminium die casting, added major European Tier 1s
- e) Entry into Starter Motor & Alternators and Telematics through inorganic route
- f) Entry into Sensor business



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- g) The group has about 30 customers in more than 20 countries. The management wants to capitalise on its global footprint and has many initiatives underway to increase its focus on exports.
- h) Minda Corp has secured business from a leading German tier-1 company for the supply of compressor housing, and from a German auto maker for the supply of seat latches. It has also made inroads in the European EV (electric vehicle) segment and has secured business from a Dutch EV company.
- i) Aluminum die casting remains key growth driver in exports. Focused on niche gravity die casting. Aiming for Rs. 500 crores revenue in two-three years and Rs. 1000 crores in five years (FY18: ~Rs. 300 crores).

Minda KTSN Europe

- a) Manufactures Interior Plastic Products- Cupholder, Glovebox, steering column shrouds etc.
- b) Marquee Customers including VW, Audi, BMW, Daimler, Porsche and Tier 1 suppliers

Challenges faced

Impacted by WLTP emission norms, general Industry slowdown, customer concentration

High Breakeven point, Increasing input cost, constraint in passing on raw material cost to customer

The Europe division performance is subdued owing to slowdown in Auto industry. In December 2018, the EU passenger car market declined for the fourth month in a row. Last month registrations fell by 8.4%, continuing the downward trend that started with the introduction of WLTP in September. With the exception of Italy (+2.0%), all major EU markets saw demand for cars contract during the last month of the year.

Merger of subsidiaries

The Company has started the merger exercise to consolidate the subsidiaries in the parent and simplify the Corporate structure. The Company expects the merger to be complete by May – June. With the merger, the Company will save costs - i.e taxation on w on dividend paid by step-down subsidiaries (Rs. 20 crores last year).

The Company has filed the scheme of merger with NCLT Delhi and Bengaluru for merger of domestic wholly owned subsidiaries (WoS) into Minda Corporation. Entities to be merged into MCL are:

- a) Minda Management Services Ltd.
- b) Minda Sai Ltd.
- c) Minda Automotive Solutions Ltd.
- d) Minda Autoelektrik Ltd.
- e) Minda Telematics and Electric Mobility Solutions Pvt. Ltd.

Present scheme of merger will not result in expansion of equity capital or change in shareholding pattern of MCL

QIP funds utilization

The Company had successfully completed a QIP issue in 2017 (raised Rs. 310 crores) to acquire companies which offer good synergies and complement the Company in its product portfolio. The company may also use the amount raised to pare down some of its debt, manage its working capital and other general purposes.

Q3FY19 performance

The Company's topline witnessed yoy growth of 20.9 percent in Q3FY19 driven by growth across all segments

- a) SSR system posted a revenue growth of 17.5% on the back of robust growth in exports



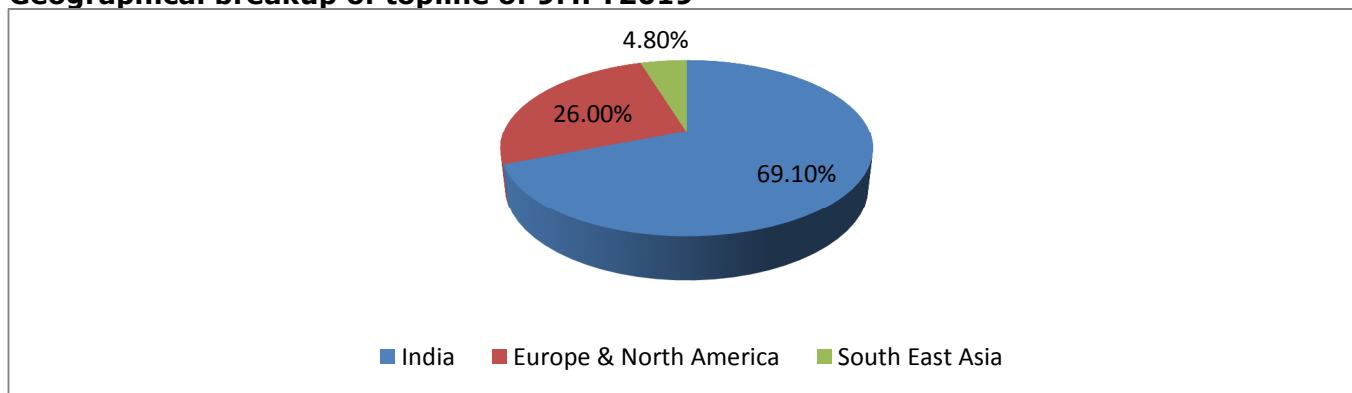
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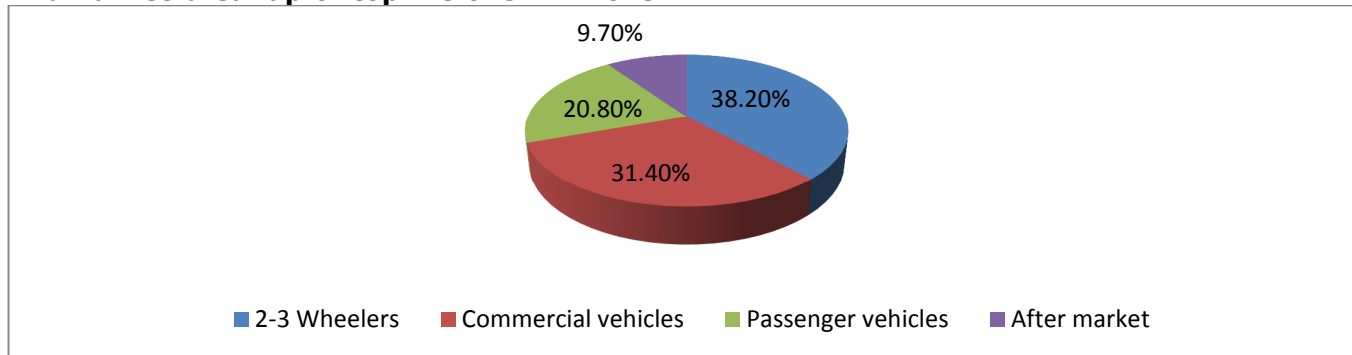
- b) DIS system grew by 19.8% aided by increase in Share of Business in 2wheeler segment
- c) Interior System grew due to Project sales and higher sales in Mexico. However, European sales were down primarily due to WLTP norms and suppressed demand

EBITDA margins adversely impacted due to negative margins in Interior system largely due to one-off items, product mix and raw material fluctuation. Net Profit stood at Rs.46. 2 crores; PAT margin of 5.9%, includes profit from sale of partial stake in the joint venture of Rs.17.5 crores. The above Net Profit is after consideration of proportionate share of profit from joint ventures of Rs.10.58 crores (Q3FY2018 Rs.5.01 crores)

Geographical breakup of topline of 9MFY2019



Endmarket breakup of topline of 9MFY2019



Credit rating

Minda Corp Long Term Credit rating upgraded by two rating agencies in current financial year

- a) IND AA- Stable – India Ratings & Research (A Fitch Group Company)
- b) A+ Stable – CRISIL (An S&P Global Company)

Consistent Dividend Payout and strong Balance sheet (ROCE: 17.2%, net Debt/equity – 0.38X) as on Sep. 2018

At CMP of Rs. 150, the stock trades at a P/E of 22x at FY18 EPS of Rs. 6.8. We recommend a "BUY" with a target price of Rs. 180 (18x at estimated FY20 EPS OF Rs. 10)

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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