Minda Industries

A Well-Diversified Tier-1 Auto Component Manufacturer

Date: 22nd December, 2020

Contents

Roots + Branches

While its important for companies to strengthen their core business and processes, i.e., roots and trunks, it has become imperative that companies should also look out for opportunities to branch out and stay ahead of the curve. As long term investors, it is important to stay away from companies that diversify its resources into unrelated business segments. It is also equally important to invest in company that not only have a very strong core business, but also opportunities to reinvest. If not you are going to lose your hard earned money.

One of the most challenging decisions a company can confront is whether to diversify: the rewards and risks can be extraordinary. Product diversification is a strategy employed by a company to increase profitability and achieve higher sales volume from new products. Diversification can occur at the business level or at the corporate level.

Diversification mitigates risks in the event of an industry downturn. It also allows for more variety and options for products and services. If done correctly, diversification provides a tremendous boost to brand image and company profitability. Diversification can also be used as a defense. By diversifying products or services, a company can protect itself from competing companies.

Is diversification really necessary? The short answer is no. The world is full of companies that found their specialty early on, built a market around that product, and decided to make it their focus. When facing the decision to diversify, however, managers need to think not about what their company does but about what it does better than its competitors. **This clarity has been one of the major reason why our latest recommendation, Minda Industries has been outperforming the auto ancillary industry over the years.**

Over the last 37 years, the Indian auto component industry has grown from a timid, import dependent and laid-back market to a matured cut-throat competitive industry. Rapidly changing technology and consumer behaviors have kept the auto component makers on their toes. A flexible responsive approach is required to meet these ever changing demands.

We believe the core strength of the group is assimilating and absorbing technology as per the need and requirement of the Original Equipment Manufacturers (OEMs). The company has been over the years concentrated on strengthening its major business segments while at the same time ventured into related high margin product segments to further improve its profitability.

Company Snapshot

- **Total Weightage % in portfolio = 6%**
- **Best buying range = 4% between 380-390 & rest 2% between 320-333 range.**
- **Price target = INR 1500-1800 in next 5 years.**

Current Market Price (INR) – 385.35

BSE - 532539

NSE - MINDAIND

Bloomberg Code - MNDA:IN

Market Cap (INR Cr.) – 10,479.00

52 Week High / Low - 424 / 205

Promoter's Holding – 70.9%

Pledged Percentage - 0%

Business: Minda Industries Ltd. (MIL), part of UNO Minda Group, was incepted in 1958. It has six decades of experience in automotive ancillary business. It supplies a wide range of automotive components to the OEMs. The company has various joint ventures (JVs) and subsidiaries both in India and overseas. It has a diversified range of products which is supplied to 2W and 4W manufacturers. Given the new orders that the company has bagged, their improving product portfolio, and massive import substitution opportunity, MIL remains a compelling auto ancillary stock to piggyback.

Management: The management has been quick and flexible in their approach to identify and exploit new opportunities in the everchanging auto industry both in India and abroad. They have steadily expanded their product offerings such that their kit value is increasing year on year with the addition of newer products in the mix.

Valuation: We believe the premium valuation of MIL is testimonial of its well-diversified portfolio, good parentage and consistent leadership in various business segments. However, we do see further room for growth from its entry into technologically advanced products, 2-wheeler alloy import substitution prospects, high market share in business as usual segments and increasing localization demands.

Persistently Growing Auto Component Industry

Even as the blitzkrieg of 19% revenue CAGR of the Indian auto-ancillary sector for the last 18 years only gives a peek into the auto giant that India is about to become, the COVID-led business environment has, paradoxically, made the sector one of the biggest beneficiaries of an inward-looking transformation.

<u>The sector is very close to a confluence of a young workforce, healthy FDI inflows, cheap land & labor, and efficient policymaking, thus charting the next leg of manufacturing prowess for itself as well as its parent auto sector.</u>

<u>The pandemic led disruption has exponentially turned up the heat on the efforts of greater indigenization amongst Indian auto parts players.</u> Evidently too, research efforts by auto component players for greater domestic manufacturing have been creeping higher, with total R&D expense as a % of net sales rising from 0.48% to 0.61% during the period 2009-2019. This steady pace of local sourcing is likely to rapidly accelerate in a post-COVID era.

Over the last 15 years, FDI inflows in the auto sector have sprinted by a CAGR of 27% - an encouraging trend - and should aid higher local opportunities, as newer manufacturing facilities are set up by OEMs like SAIC, Great Wall Motors and Kia Motors.

<u>This shift by global players is a sign of India's competitive labor, attractive land rates and massive aspirational local demand. Thus, the Indian auto component manufacturers should be able to leverage the long-standing collaborations/JVs to their own advantage, successfully absorb technology at a faster clip, hence transitioning to greater self-reliance.</u>

The Indian auto component sector's exports, over the last 18 years, has grown at CAGR of 23% from Rs27bn in FY2001 to Rs1,060bn in FY2019. This phenomenal growth is a testimony to the rapid scaling of technical know-how by the Indian manufacturers, which has led to higher foreign demand.

The gap between import and export of electricals and electronic parts is the highest and will offer the most reward to companies already present in this area. As in the new world order import curbs are here to stay, the trend should strengthen further as we emerge from the veil of COVID uncertainty.

<u>Demand sustainability has been one of the biggest concerns for auto makers in the country. Companies expects better traction, going forward on the back of rising personal mobility led by the need for social distancing. Overall economy recovery and improvement in Covid-19 scenario will bring back the good old days for the auto sector.</u>

Twin Opportunities

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Localization

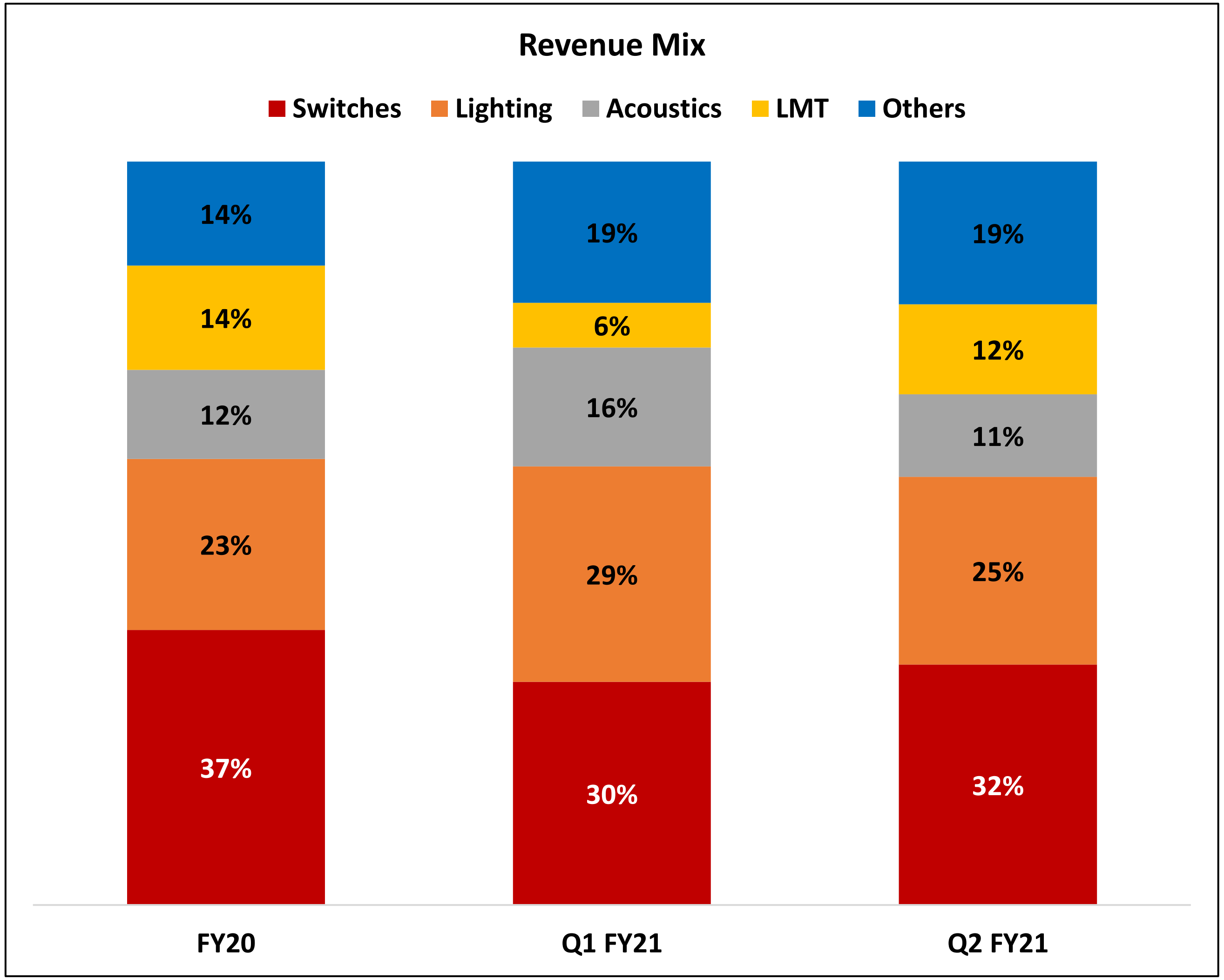
- The Indian auto component sector's exports, over the last 18 years, has grown at CAGR of 23% from Rs27bn in FY2001 to Rs1,060bn in FY2019.
- This phenomenal growth is a testimony to the rapid scaling of technical know-how by the Indian manufacturers, which has led to higher foreign demand.
- Engine, transmission, steering, and chassis parts are the key components exported from India and constitute ~67% of total exported parts.
- Over the years, Europe, Asia and North America have been the largest markets for Indian auto component industry exports.
- Top five countries where Indian auto component industry exports have remained the same from FY2014-2019, account for 45% of total auto part exports.
- Over the same period, the Indian auto component industry has increased its exports to USA by 400bps from 21% to 25% while the export share to Germany, Turkey, UK, and Italy has remained stable.

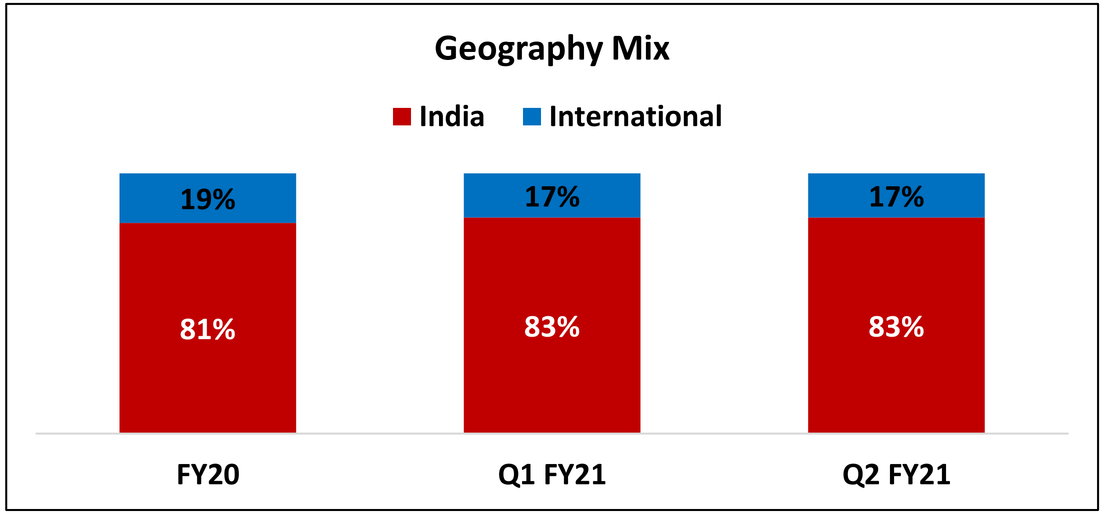
Import Substitution

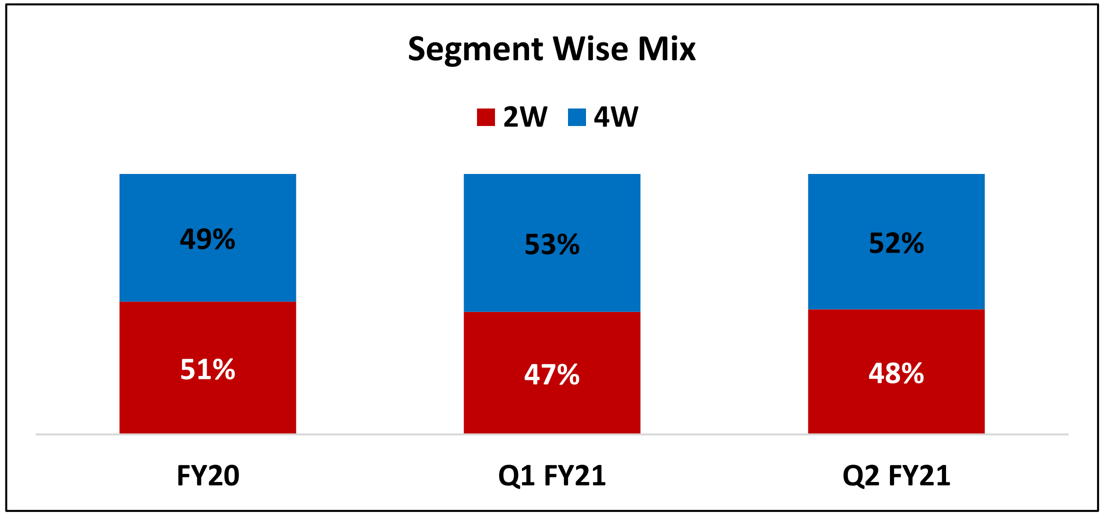
- The Indian auto component sector's imports, over the last 18 years, has grown at CAGR of 23% from Rs31bn in FY2001 to Rs1,237bn in FY2019.
- Engine, transmission, steering, and electronic parts are the main imported components that make up for ~61% of total imports.
- Over the years, Europe and Asia have been the largest markets from where the Indian auto component industry imports. Europe's share has reduced by 500bps from 34% in FY2014 to 29% in FY2019, while Asia's share has climbed by 400bps from 57% in FY2014 to 61% in FY2019.
- Top five countries from where Indian auto component industry imports have remained the same over the last 5 years.
- But, over the same period, the Indian auto component industry has reduced its dependence from Germany, Japan, South Korea, and Thailand.
- However, the dependence on China increased by 400bps from 21% in FY2014 to 25% in FY2019.

Source: Industry Reports, Financial Articles

MIL in charts







Source: Company Disclosures

Corporate Structure

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DOMESTIC SUBSIDIARIES

- MKL (68%)
- MJ Casting (100%)*
- MACL (100%)*
- MDSL (100%)*
- MKAWL (70%)
- Minda TG Rubber (51%)
- Minda Rinder (100%)*
- MSBPL (100%)
- YA Auto (51%)
- MRPL (51%)
- MITIL (60%)
  - MPPL (95%)
- Minda Katolec (51%)

OVERSEAS SUBSIDIARIES

- Global Mazinkert (100%)
- LSTC (100%)
- Clarton Horn, Spain (100%)
- Clarton Horn, Morocco (100%)
- Clarton Horn, Mexico (100%)
- CH Signalkoustic (100%)
- PTMA (100%)
  - PTMT (100%)
- Sam Global (100%)
  - MIVCL (100%)
  - Minda Germany GmbH (100%)
    - Delvis GmbH (100%)
      - Delvis Products (100%)
      - Delivs Services (100%)
  - Minda Korea Co. (100%)
- iSYS RTS GmbH (80%)

JOINT VENTURES & ASSOCIATES

- METL (49%)
- Rinder Riduco (50%) (Via LSTC)
- ROKI (49%)
- Minda TTE DAPS (50%)
- MNGTL (26%)
- Denso Ten Minda (49%)
- Minda D Ten (51%)
- KMAC (30%)
- Auto Component (49%)
- Yogendra Engineering (49%)
- TG Minda (48%)
- Minda Onkyo (50%)
- Kosei Minda Mould (49%)

Source: Company Disclosures

Key Milestones

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Year	Events
1958	Started with manufacturing of Ammeter for Royal Enfield
1960	Started with manufacturing of Automotive Switches
1980	Entered Automotive Lighting manufacturing
1993	Expanded into Automotive Horn manufacturing
2001	Set-up Kit Integration of CNG/LPG Kits
2007	Started with manufacturing of Battery
2008	Started with manufacturing of Blow Moulding
2010	Started with manufacturing of Aluminium Die Casting
2013	Acquired Spain-based Clarton Horns
2014	Entered in manufacturing of Fuel Caps and into separate JV with Panasonic for Battery business
2015	Entered in a JV with Kosei Minda for Alloy Wheels
2016	Acquired Rinder to expand the auto lighting portfolio
2016	Entered in to agreements with TTE, Taiwan for ADAS and Sensata Technologies, USA for high end sensors; Also acquired iSyS
2019	Acquired Harita Seating Systems, Delvis GmBH & KPIT Technologies' telematics hardware division

Source: Company Disclosures

Investment Rationale

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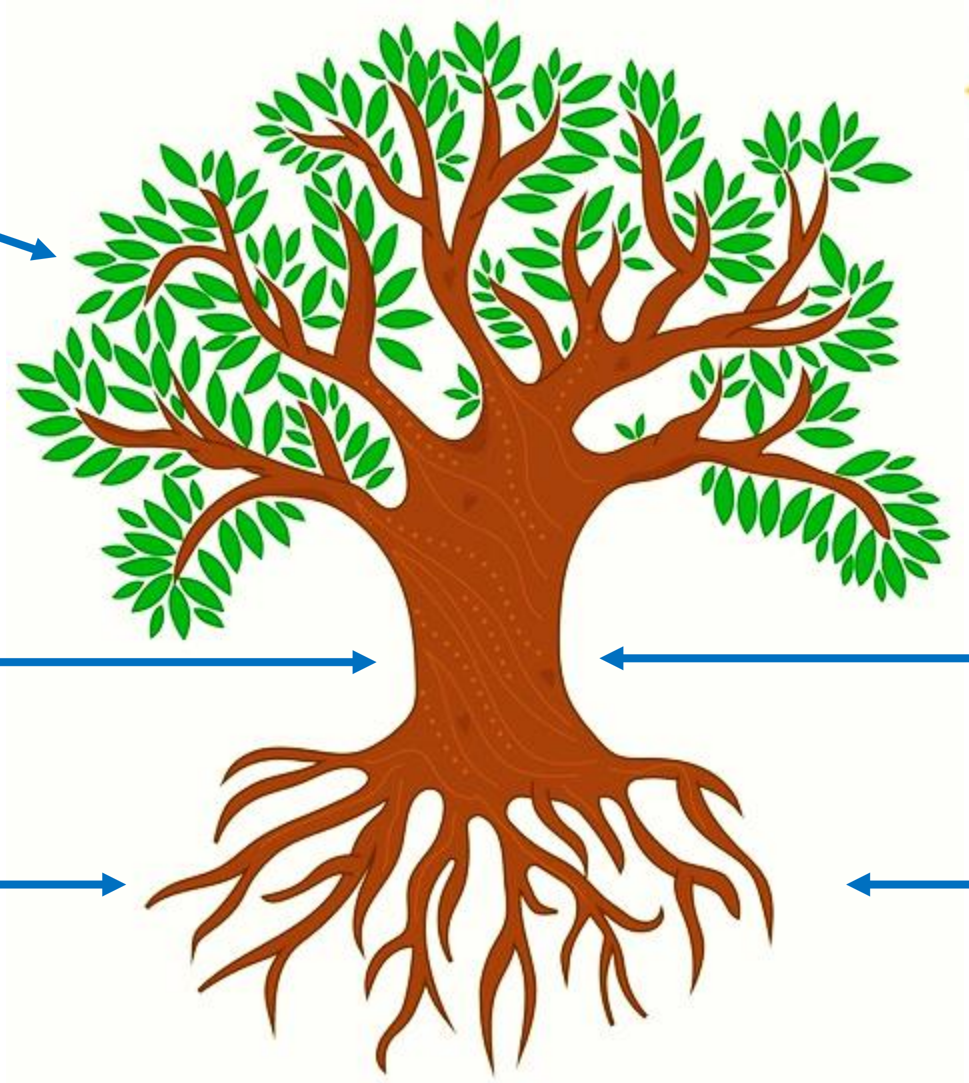
Industry Tailwinds

Localization
Import Substitution
Regulatory & Safety Push
Premiumization

Rising Opportunities in High-margin New Product Segments (Alloy wheels, Air bags, sensors etc)



Sustained leadership in established business segments (Switches, Lighting & Acoustics)

Successful Acquisition Strategy

Multiple Technological Tie ups & Strong R&D Capabilities

Strong Long-term Relationship with Major OEMs

Segment I - Switches

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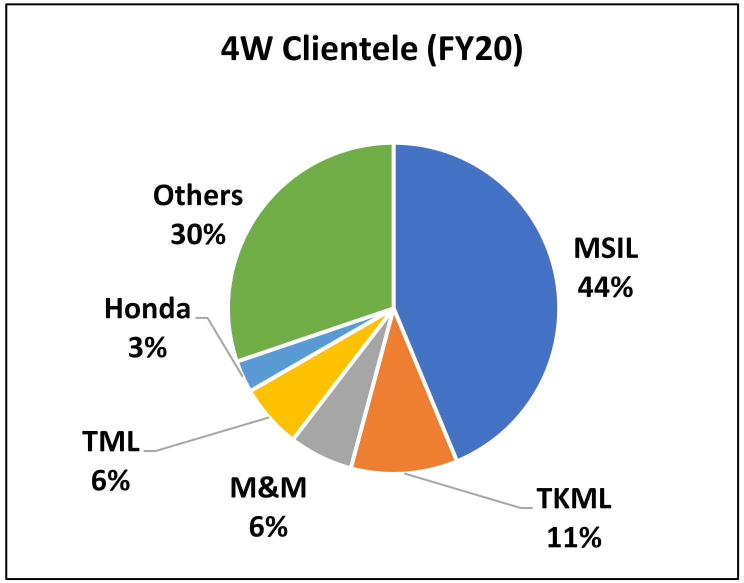
- **<u>MIL is the largest automotive switch player in India (4W and 2W) and the largest 2W switch manufacturer worldwide by volume.</u>**
- The company serves the 4W segment through subsidiary i.e. Minda Rika (MNDA has 51% stake, rest with Japanese partner Tokai Rika), while the 2W switch business is a standalone entity. It focuses on development of cost-effective and advanced solutions.
- <u>This segment is propelled by the growth in auto production and higher premiumization.</u> The company has been able to grow faster than the industry by taking advantage of technology evolution for ease of riding, e.g. climate control and transition from manual to automatic.

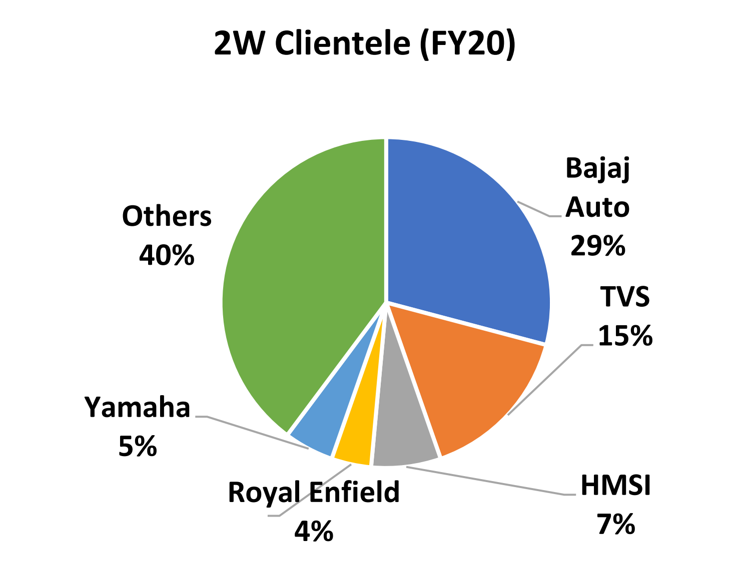
2W switches Market Share India: ~65%

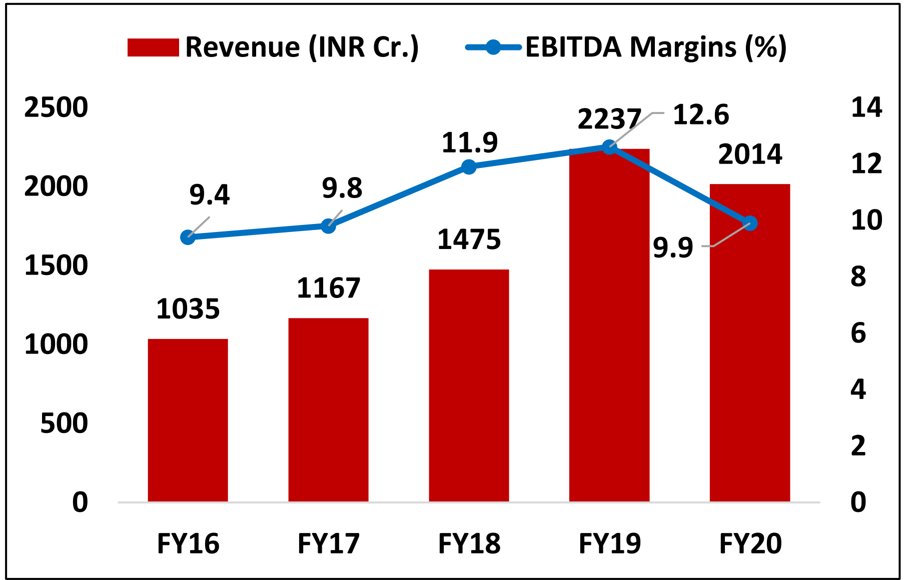
4W switches (Minda Rika) Market Share India: 55%

Exports: ~6% (FY19)

- **2W Plants:** Manesar, Pune, Pantnagar, Hosur, Aurangabad, Vietnam, Indonesia
- **4W Plants:** Manesar, Pune, Chennai, Gujarat







Source: Company Disclosures

Segment II - Lighting

- **<u>MIL is India's third largest automotive lighting player with an overall market share of 22%.</u>**
- Acquired Rinder Group in Spain (2016) for €5mn: Pioneer in automotive LED lighting. Its expertise on the lighting front from design to aftermarket is backed by R&D facilities This acquisition boosted the company's competitiveness in the premium lighting space especially in LED lighting space given its technological support.
- Acquired 100% of Delvis Gmbh: A complete system developer from cost-optimized basic headlights and design solutions up to adaptive LED headlight systems. Delvis is among the top players and works closely with German OEMs like VW, Audi and Porche.
- <u>Increasing LED penetration due to low heat emission and higher energy efficiency is expected to propel future demand.</u>

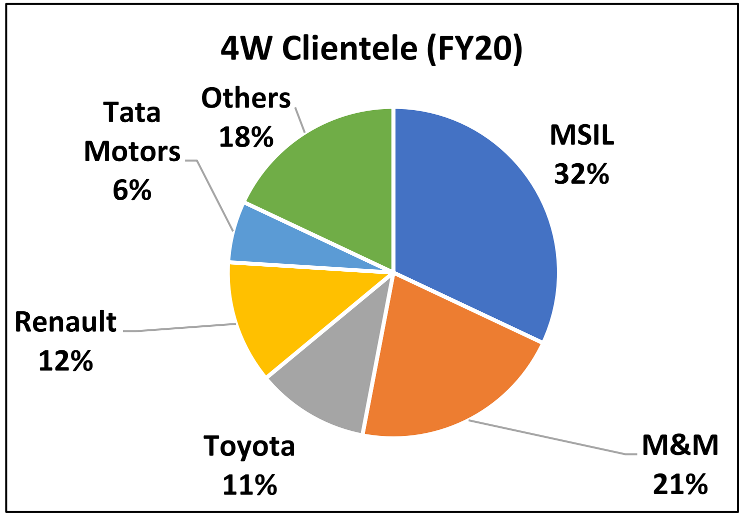
2W Market Share India: 13%

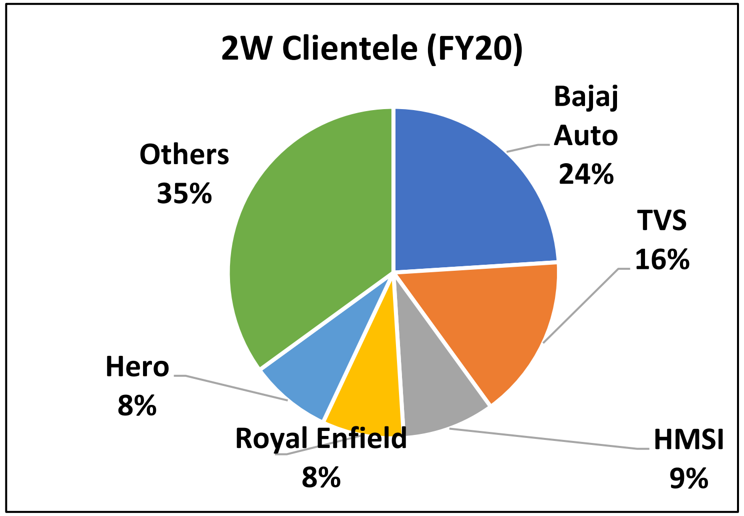
4W Market Share India: 27%

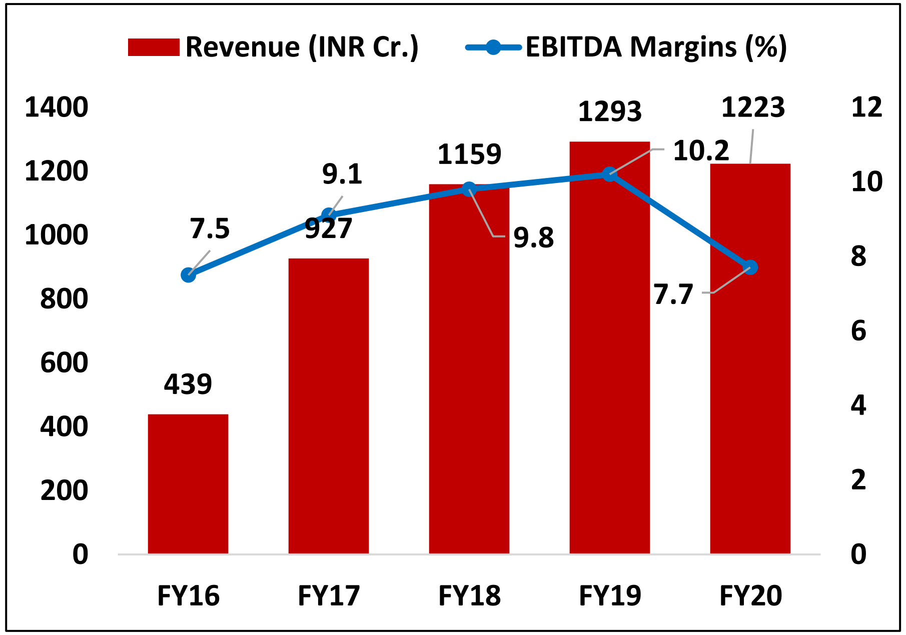
Rinder 2W India: Chakan, Pimpri and Bahadurgarh

Rinder 2W Overseas: Columbia, Design centre Spain

MIL Plants: Pantnagar, Sonepat, Haridwar, Chennai







Source: Company Disclosures

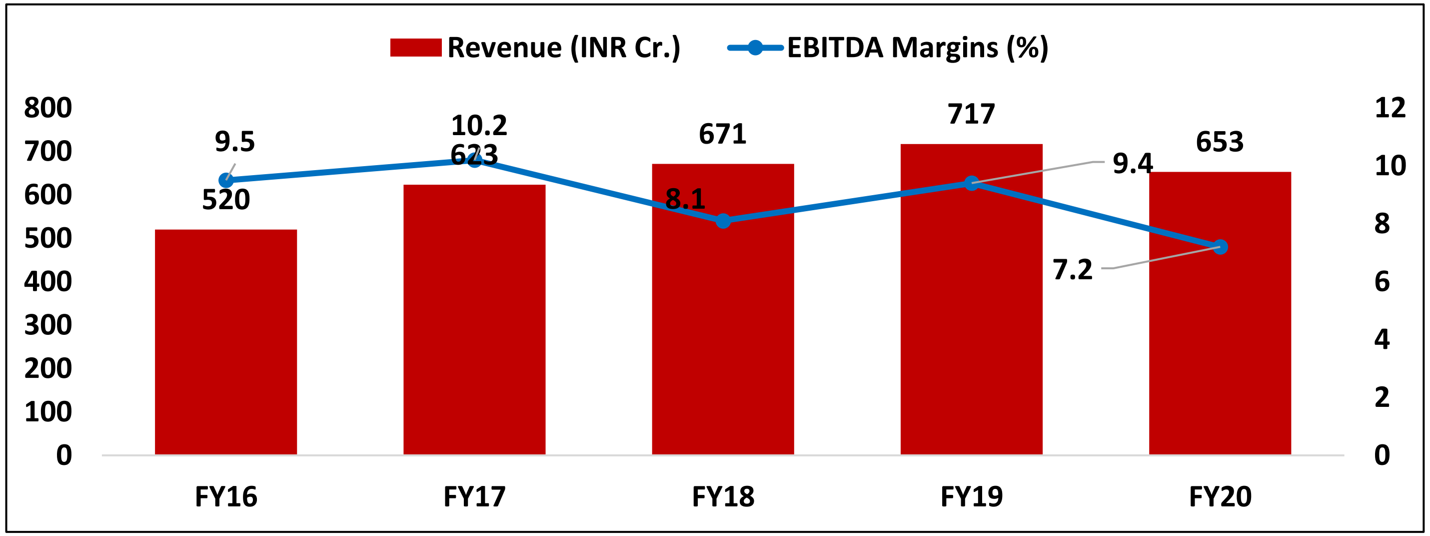
Segment III - Acoustics

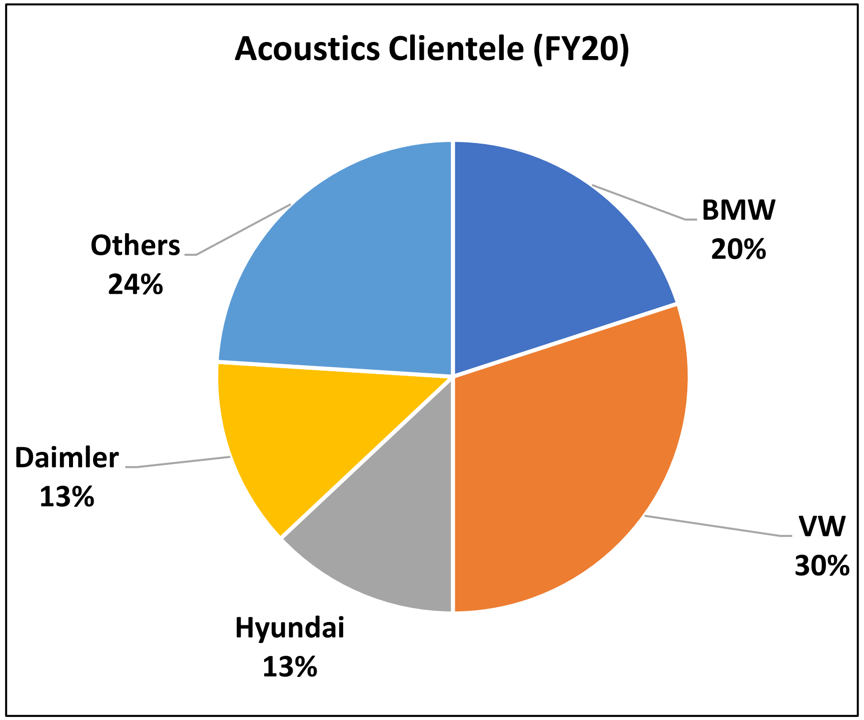
- **<u>The company is India's largest player in this segment and also the second largest player globally. It has strong in-house R&D capabilities developed with FIAMM, Italy.</u>**
- After acquiring Spain-based Clarton Horns in 2013, MIL became the second largest global player.
- Revenue growth was impacted by muted demand in Europe owing to World harmonized Light-duty vehicles Test Procedure (WLTP) norms, which came into effect in 2018 and thus had an impact on MNDA's acoustics division.
- <u>Content increase in this segment is driven by shift from mechanical horns to electro-mechanical and electronic horns.</u>

Market Share India: 47%

MIL Facilities: Panesar, Pantnagar, Indonesia

Clarton Horn Facilities: Spain, Morocco, Mexico





Source: Company Disclosures

Segment IV – Light Metal Technology

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- **<u>MIL's Light Metal Technology (LMT) segment commands the highest premium in all of its segments.</u>** Under this segment, MIL manufactures alloy wheels, die casting, and blow molded products. <u>Higher aesthetic appeal., superior design flexibility and lighter weight over the steel have led to increased demand for alloy wheels.</u>
- MIL's subsidiary, Minda Kosei Aluminum Wheels (MKAWL), is the market leader in alloy wheels. With its manufacturing facility at Bawal, Haryana and Gujarat, it has a current installed capacity of ~2.7mn wheels per annum.
- <u>As the penetration level of alloy wheel in the Indian 4W market stands at ~30% at present, we see is huge potential in the coming period led by increasing premiumization and regulatory push for reducing the weight of the vehicles.</u>
- MIL is also in the process of commissioning a 2-Wheeler alloy wheels plant with a capacity of ~3.6mn alloy wheels per annum. The plant is expected to commence in Q3FY21.
- <u>2W alloy wheels penetration in India is estimated at ~80% in FY20. Now, it is more competitive, with ~65% of the industry served by imports (in the absence of any anti-dumping duty unlike the PV segment), which provides an import substitution opportunity for the domestic manufacturers.</u>
- MIL plans to invest INR 5bn to produce ~6mn units per annum, which will be supplied primarily to Bajaj Auto along with HMSI and TVS Motor. While it plans to invest INR 3bn in Phase-I for annual capacity of ~3.6mn units (which started recently), the Phase-II will need ~INR 2bn investment, which would take the annual capacity to the desired level.

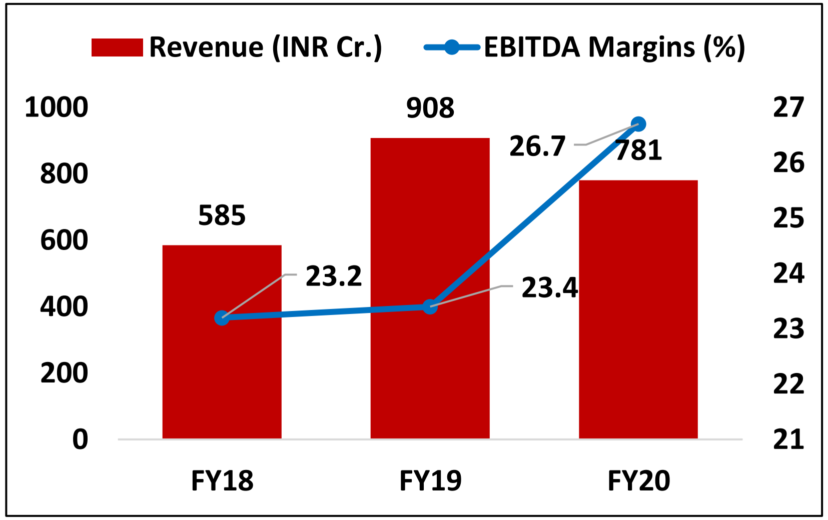
4W Alloy Wheel Market Share India: ~45%

LMT Clientele (FY20)

Alloy Wheels: M&M (12%), MSIL (88%)

Die Casting: HMSI (32%), TVS (57%), Wabco India (11%)

Blow Molding: MSIL (23%), TKML (16%), Suzuki Motors (26%), Honda (4%), Mahindra (4%)



Source: Company Disclosures

Segment V – Others (1/2)

Sensors, Actuators and Controllers (SAC): Sensor content in a car is likely to rise rapidly, as the vehicles become more intelligent and autonomous. MIL's SAC division, established in 2005, manufactures products i.e. start-stop sensors, contact and non-contact speed sensors, tyre pressure monitoring systems, electronic accelerator pedal modules, DC-DC converters and headlamp leveling motors among others. It caters to the leading OEMs like M&M, Bajaj Auto, VECV, Royal Enfield, Tata Motors and General Motors etc.

<u>SAC segment is the major beneficiary of regulatory push towards vehicular safety, shift to BS-VI emission norm and vehicular tracking. Further, the general trend of increasing electronics content in vehicles would lead to higher usage of sensor based applications in the PVs, which is a longer-term demand driver for this segment.</u>

In order to enhance its expertise in this division, MIL also entered into tie-up with US based Sensata Technologies and telematics division of KPIT. MNDA acquired Germany-based iSYS RTS for €5mn (for 80% stake) in Jul'18, which specializes in electronic control units (ECUs) for automotive body and control systems and software components for automotive lighting, interior lighting, electrical drive ECUs, HMI and infotainment applications.

Telematics: MIL has also acquired KPIT's telematics hardware business for INR 250mn in Jan'19. The products included vehicle telematics system i.e. AIS 140, On Bus Integrated Telematics Systems OBITS, and products for school buses. <u>The company enjoys competitive advantage over global peers owing to cost advantage of (~20-25%) led by localization. Currently, controller is imported into India in the absence of ability for manufacturing the same locally by any major auto ancillary company.</u>

Infotainment Systems: Denso Ten Minda – 51:49 JV between Denso Ten and Minda, which manufactures car infotainment products – is expected to benefit from growing demand for infotainment systems. Its manufacturing facility is located at Bawal. The JV supplies infotainment systems to Maruti Suzuki, Toyota and Honda and enjoys ~21% market share in automotive infotainment in India.

<u>In-vehicle infotainment systems are likely to see incremental demand led by premiumization, as the customers prefer mid-to-high-end variants over entry-level variants. Broadly, the penetration of infotainment system as OE fitment is ~100% in sedan and higher segment cars but significantly lower in entry level cars (20-30% only) and hatchback (~45%).</u>

Segment V – Others (2/2)

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Air Bags: TG Minda – a JV between Toyoda Gosei and Minda Group – is the second largest supplier of airbags in India with ~25% market share. With the implementation of safety norms, the penetration of airbags rose from 45% in FY18 to 100% in 2020.

Front air bags (mainly driver side airbag) had reached ~65% penetration, while other airbags (side, side torso, knees, curtain and rear etc.) are penetrated to the extent of ~10%. MNDA is well-placed in this space as one of the leading players, commanding ~25% market share.

Seat Belts & AMT Shifters: Tokairika Minda (TR Minda) – a JV between Tokai Rika of Japan and Uno Minda group – manufactures seat belts, steering roll connectors and gear shifters. The company operates one plant in Bangalore and supplies to Toyota Kirloskar and Maruti Suzuki.

Driving Assistance Products and Systems (DAPS): Minda TTE DAPS – Mil's 50:50 JV with Tung Thih Electronic of Taiwan – will capitalize on the rising penetration of Advanced Driver Assistance Systems (ADAS). It supplies RPASs to Maruti Suzuki and gained market shares owing to mandatory fitment of RPAS in all PVs from Jul'19.

Air filter/Canisters: MIL's 49% JV with Roki Company of Japan manufactures air filtration systems and carbon canisters. This product segment is likely to see a significant jump in demand under BS-VI regime, which came into effect from April'20. Activated carbon canisters are used to capture hydrocarbon vapor emissions from the fuel tank as a part of evaporative emission control system (EVAP).

Seats: MIL in FY19 announced its plant to acquire Harita Seating Systems Ltd. which is expected to be completed by the end of FY21. Harita Seating is involved in manufacturing seats and primarily caters to CVs (20% of revenue), tractors (33% of revenue) and two-wheelers (8% of revenue). With a total of 12 manufacturing plants, Harita boasts of a strong market share in CV seating (~53%) and in tractors (~33%). Harita's financially sound profile fits MIL's strategy over the long-term leading to addition of new clients and expansion of portfolio.

Other Small Business: In addition to major revenue contribution from switches, horns, lighting, sensors electronics, infotainment and alloy wheels, MNDA has also invested in few more businesses i.e. Minda Kyoraku in blow moulding, MJ Casting in aluminium die casting, TG Rubber in fuel caps and Minda Storage Batteries. Cross-selling has helped MNDA to increase revenue of each of these businesses at a healthy pace

Premiumization Trend & Regulatory Measures

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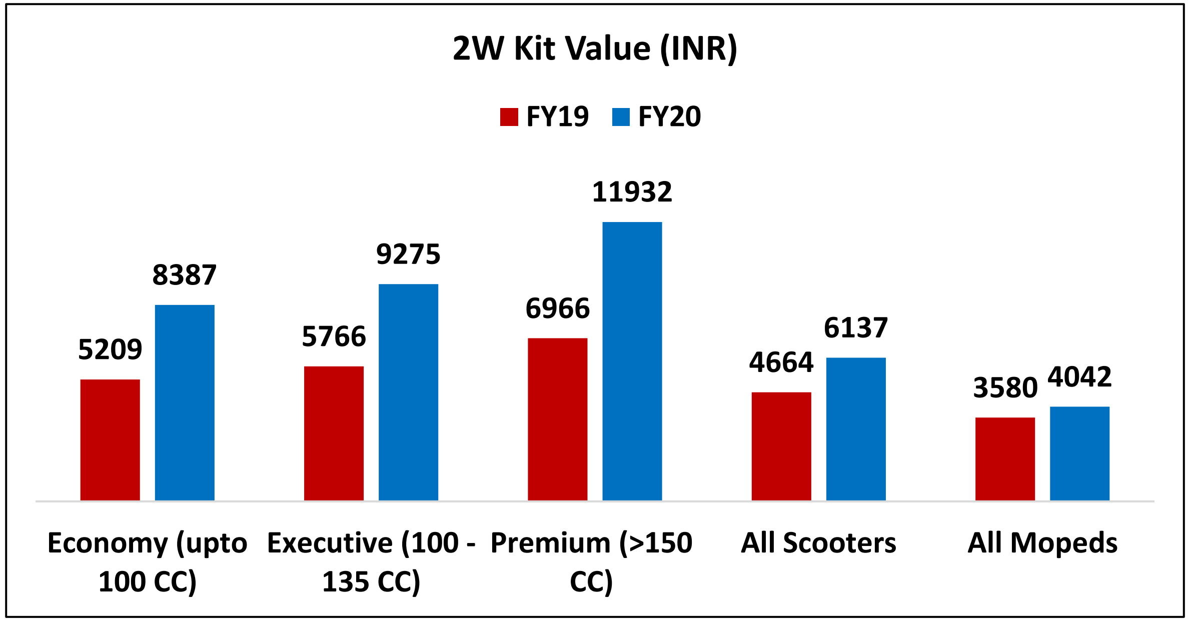
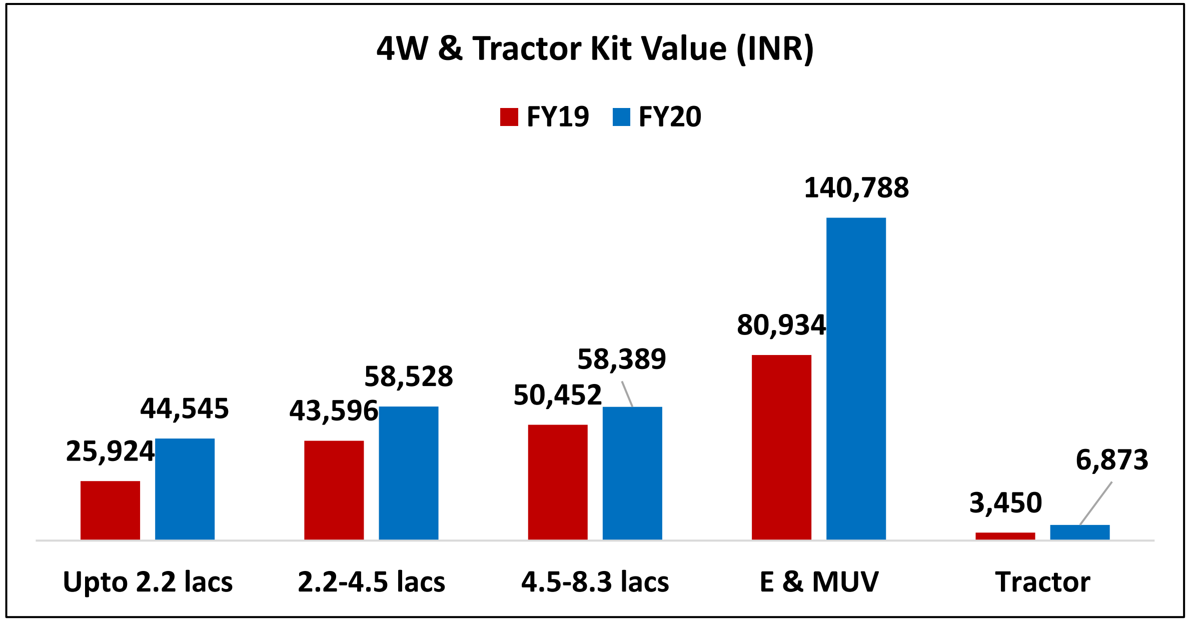
- MIL has been ahead of the curve in identification of product segments that have attracted higher market attention. Accelerated adoption of some of these products (e.g. alloy wheels, LED lighting and infotainment systems etc.) coupled with up-gradation in purchase by the Indian consumers have helped the company in gaining positive traction across product offerings.
- The company has a widespread manufacturing units (62 plants in 7 countries), R&D centres (6 locations) and global sales presence. Consumers' increasing preference for higher variants of vehicles is visible from the shift from entry level mini cars to compact/super compact cars over last 5 years. Kit value per vehicles is 30% higher in compact cars as against mini cars.
- Several regulatory moves for increased passengers' safety and higher demand for more features/components by consumers (even in basic models) will drive the value of kit per vehicle, going forward.





Source: Company Disclosures

Steady Replacement Market

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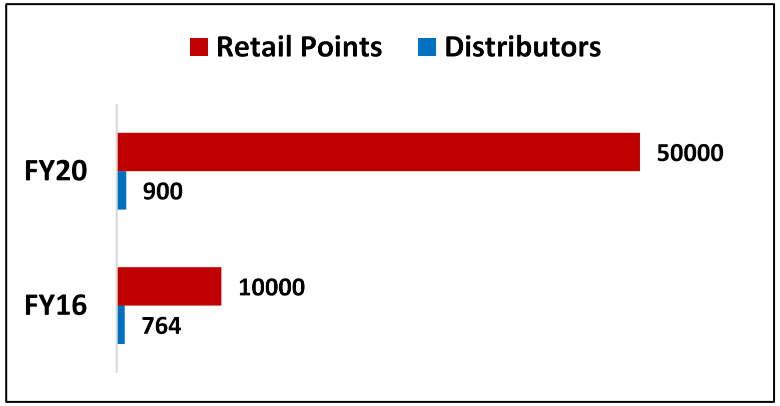
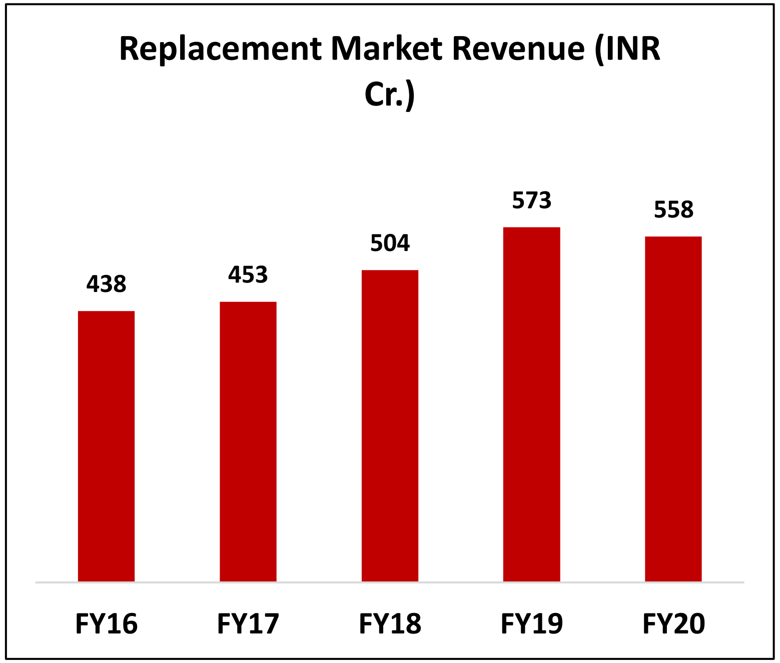
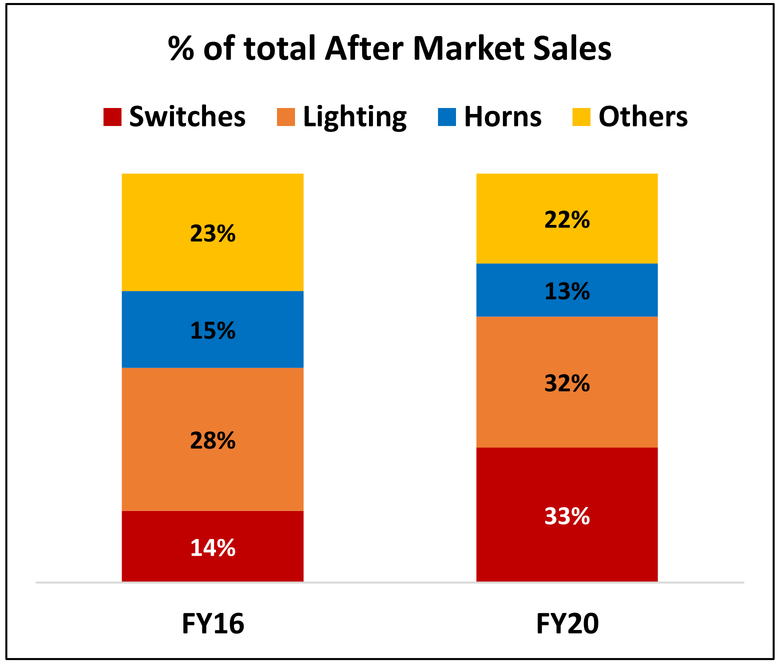
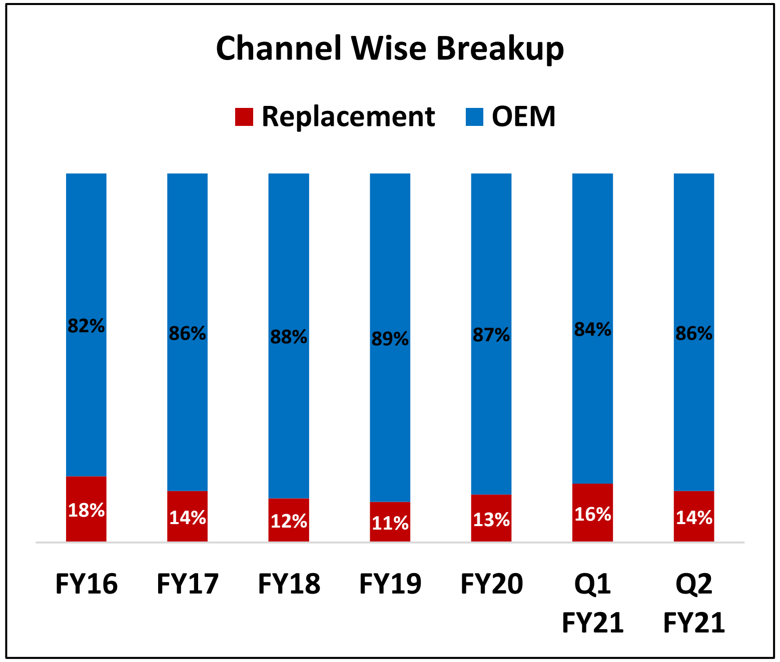
- Minda Distribution & Services Ltd. (MDSL), wholly owned subsidiary of MIL (which was merged with standalone entity in FY20), distributes all the group products in the aftermarket. Aftermarket products, manufactured by MIL and group companies are sold to MDSL, which sells auto parts and components in the aftermarket through dealers and distributors and retailers.
- <u>Rising premiumization trend, introduction of new products, increasing preference for branded products post GST roll-out and a widespread distribution reach coupled with further network expansion to propel future growth.</u>





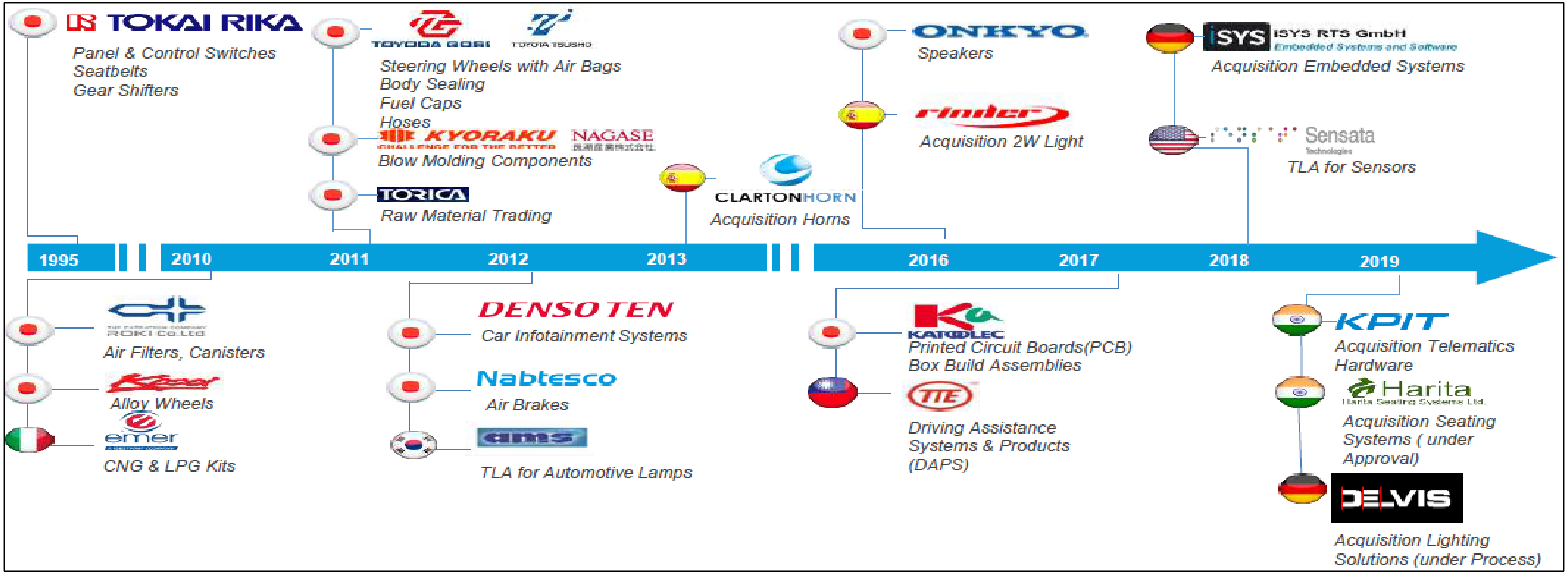




Source: Company Disclosures

Successful Acquisition Strategy

MIL has been able to witness successful inorganic growth through several acquisitions, which include: Clarton Horns in Spain (2013), Rinder Group in Spain (2015), iSYS RTS in Germany (2018), Harita Seating in India (2020) along with several JVs over last decade. <u>The company continues to perform strongly via organic and inorganic strategy with its presence in new-age opportunities (alloy wheels, LED, air bags, telematics, sensors and controllers etc.) making it one of the most vibrant auto ancillary companies having promising future in the Indian auto ancillary space.</u>



Source: Company Disclosures

Technological Tie-ups & R&D Capabilities

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- The company has long-standing technical agreements with global players in several areas. Over the period of time, MIL has explored inorganic route to gain and extend capabilities in diverse product offerings. Cross-selling has helped MIL to increase revenue of each of these businesses at a healthy pace.
- MNDA has limited exposure to engine and engine related parts in its product portfolio. The company makes CNG, LPG kits (alternate fuel systems), fuel hoses and fuel caps, which contribute ~5-10% to its consolidated revenues. To mitigate it, the company is proactively working on development of EV components.
- MIL has consistently demonstrated its focus on R&D as a means to be more self-reliant in areas of technology and product innovation.
- Its state-of-the-art Centre for Research, Engineering and Advance Technologies (CREAT) is a significant step in this direction. The centre works on embedded electronic products related to connected vehicles, telematics, ADAS, infotainment, EV technologies, controllers and sensors, advance lighting and others.
- MIL has been a pioneer in successfully forging partnership with global technology leaders for affordable localization of several components. This started with Tokai Rika, Japan for 4W switches in 1995 and expanded over 14 partnerships till date.
- Apart from providing technical support, the partners also help in providing latest solutions to meet the demand of the OEMs. MIL provides a local understanding and operating environment to these partners.

62 Plants Globally

20+ Product Lines

5 Acquisitions

17 Joint Ventures/Associations

250+ Design Registrations

260+ Product Patents

10+ R&D centers globally

12 Product Engineering Centers

Source: Company Disclosures

Well Diversified Clientele

3C CAPITALS
expertise you can trust

BAJAJ | TVS | HONDA | ROYAL ENFIELD | Hero | BMW Motorcycles | PIAGGIO

YAMAHA | Mahindra 2 Wheelers | SUZUKI | KTM | Kawasaki | aprilia | POLARIS Think Outside

TAFE | ESCORTS | SONALIKA INTERNATIONAL

POLARIS Think Outside | JCB | CAT

MARUTI SUZUKI Way of Life! | HONDA | Mahindra Rise. | HYUNDAI | TOYOTA | RENAULT

DAIMLER | VW | NISSAN | GM | TATA | FIAT

Ashok Leyland | Ford | PSA GROUPE | EICHER TRUCKS AND BUSES | BMW | DAIHATSU

TAFE | Mahindra Rise. | CNH INDUSTRIAL

Kubota | swaraj | MITSUBISHI

Source: Company Disclosures

Financial Analysis (1/2)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue (INR Cr.)	954.00	1179.00	1340.00	1706.00	2232.00	2527.00	3386.00	4471.00	5908.00	5465.00
Operating Profit (INR Cr.)	83.71	75.86	93.46	59.48	151.00	238.00	374.00	534.00	725.00	619.00
Operating Profit Margins (%)	10.30	7.82	7.79	5.55	7.68	9.96	11.45	12.69	12.73	12.05
Net Profit (INR Cr.)	35.53	28.69	28.22	7.18	67.97	111	165	310	286	155
Net Profit Margins (%)	3.72	2.43	2.11	0.42	3.50	4.04	4.88	6.94	4.83	2.84
Cash from Operating Activities (INR Cr.)	44.62	77.42	95.31	41.64	135.00	146.00	335.00	362.00	414.00	965.0
Free Cash Flow (INR Cr.)	-10.17	-34.67	-28.87	-407.00	70.15	-260.00	763.00	-363.00	-257.00	111.00
EPS (INR)	26.33	17.67	17.72	4.46	42.77	69.96	20.82	35.63	10.89	5.91

- MIL's consolidated revenue clocked 21.40% CAGR over FY11-FY20. Operating profit and net profit clocked 24.90% and 17.78% CAGR respectively over the same period.
- The company's core growth was higher with increasing content, value addition, expansion of products portfolio, new client addition and fresh order wins, while its inorganic growth through acquisition, restructuring of few business and merger of subsidiaries also supported healthy revenue CAGR over the years.
- The ongoing auto sector slowdown and uncertainty around Covid-19 will continue to effect the margins of the company. We also believe expansion into new segments, capacity expansion in LMT business and Harita acquisition would restrict the margin expansion over the medium-term. Also, initial lower capacity utilization at the new plants (alloy wheel and sensors) keeps margin under pressure.
- While MIL has been able to generate positive cash flows consistently, free cash flows have been volatile on account of capex for business expansion and increasing working capital need for new businesses.

Financial Analysis (2/2)

3C CAPITALS
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	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory Days	23.51	23.56	21.33	21.31	20.39	21.82	20.98	26.29	30.23	37.27
Receivable Days	39.01	46.81	51.79	47.59	42.31	43.94	42.99	51.73	52.17	54.29
Payable Days	50.54	50.90	58.15	52.94	4491	46.83	48.67	59.20	55.92	65.24
Debt to Equity	0.87	0.64	0.64	0.98	0.64	0.83	0.48	0.44	0.63	0.65
Asset Turnover	1.71	1.56	1.56	1.65	2.08	1.61	1.43	1.30	1.40	1.13
ROCE (%)	23.70	12.27	12.29	6.70	15.76	19.19	17.52	19.49	18.81	11.20
ROIC (%)	17.12	13.01	9.72	0.04	11.80	17.59	20.58	17.81	15.98	9.25
ROE (%)	17.88	10.03	9.14	2.30	18.61	23.56	15.59	22.29	16.76	8.53

- MIL has consistently been recording revenue growth despite marginal decline in asset turnover over last decade due to constant expansion and acquisition, which kept its utilization level lower than the optimum level.
- While the debt to equity has been consistently below 1, total debt of the company has been increasing steadily.
- Receivable days has been in the range of 42-55 days while inventory days has been under 40 days. Receivables as a % of sales has been decreasing over the years.
- The effect of the auto sector slowdown and acquisitions can be clearly seen in the return ratios.
- MIL’s related party transactions mainly involve sale/purchase of products mainly with its associates and JVs.
- The company incurred ~INR 7bn capex in FY20 and plans to spend ~INR 2.5bn routine capex and INR 1.2-1.5bn for subsidiary and associate companies taking overall capex and investment to <INR 5bn in FY21E.

Q2 FY21 Updates

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	Q2 FY20	Q1 FY21	Q2 FY21	Q-o-Q (%)	Y-o-Y (%)
Revenue (INR Cr.)	1360.00	417.00	1465.00	251.30	8.00
Operating Profit (INR Cr.)	162.00	-71.49	215.00	-	33.00
Operating Profit Margins (%)	11.89	-17.14	14.71	-	-
Net Profit (INR Cr.)	51.74	-119.00	84.48	-	63.00
Net Profit Margins (%)	3.81	-28.47	5.77	-	-

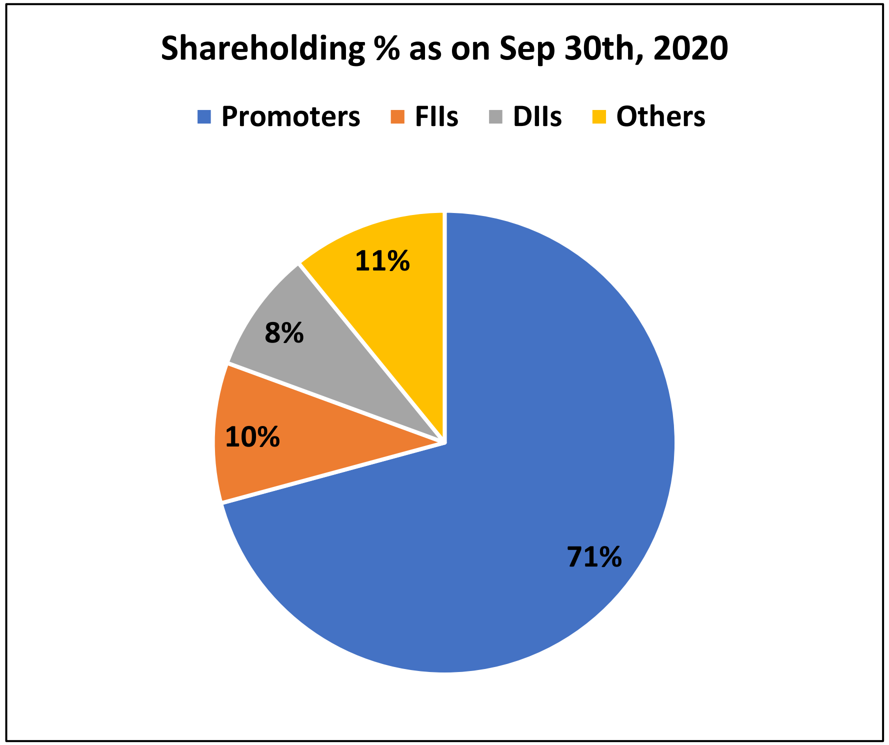
- Toyoda Gosei Japan and Minda are consolidating their business under one umbrella. Minda has already increased its holding in TGMINDA to 49.9% in Sep 18. TGMINDA has acquired 95% stake in TGSIN from TG Japan in Sep 20.
- The board has also approved the purchase of 13% stake in Tokairika Minda Pvt Ltd (from Minda Finance Limited as part of group consolidation exercise for consideration of INR 10.04 per share amounting to INR 22.59 Cr.
- <u>The management has communicated that there will be a delay in commissioning of plants by 4-6 months for 2W alloy wheel and Sensors.</u>
- Total borrowings as on Sep 30th, 2020 stood at INR 967.99 Cr. (Short term – INR 229.77 Cr. and Long term – INR 738.22 Cr.). Cash and cash equivalents stood at INR 246.23 Cr.
- <u>Whilst MNDA's domestic and overseas plants are fully operational, they are operating at utilization level of ~75% currently.</u>

New Orders, Products & Updates

- 4W: New Product : Sun Roof, Gear Shifters and Neutral S witches been localized (Import substitution.
- 2W Lighting: New orders from RE, E Bikes TVS, Bajaj and Honda
- 4W Lighting: MSIL new SUV Model LED tail lamp with rear facia
- Delvis: New orders from Daimler and Audi
- First order for Electronic horn for M&M PV division
- LPDC Line to start commissioning to be ready for customer inspection by Q4
- 2W alloy wheel plant is operational (Two Lines)
- Started supply of Wheel speed Sensor has been started for Korean customers (In Korea).

Management Analysis & Shareholding %

- **Management compensation:** As compared to other auto-ancillary firms, we feel that the promoter compensation as a percentage of Profit Before Tax (PBT) has been on the higher side. But, in FY20, the MD has taken ~72% compensation cut, which according to us is a commendable move in a challenging auto sales environment.
- **Capital allocation record:** The company has not been able to generate stable free cash flows over the years. The group has been constantly consolidating smaller subsidiaries and also venturing into new age products and hence growing inorganically. We believe free cash flows and profitability will improve once the capex requirement tapers off as the group consolidation nears saturation.
- **Shareholder communication:** Adequate
- **Promoter Holding:** The promoters' holding has remained stable over the past 5 years. It increased to 74% in FY2017 from 70.9% at the end of FY2016 and since then has stabilised at ~71%.
- **Pledged Shares:** Nil



Source: Company Disclosures

MIL came out with its maiden rights issue on Aug 21,2020. The company fixed the issue price at INR 250/share (including a premium of INR 248 over face value of INR 2), a 26.8% discount to August 21 closing price of INR 341.50/share. The management has stated that the proceeds from the rights issue will be used to pay down the company's debt. The rights issue was oversubscribed 1.2 times and the total proceeds were INR 242.8 Cr. The promoter group had also participated in the rights issue thereby increasing their holdings from 70.79% to 70.88%.

Sources of Risks

Delayed economic recovery from COVID-led slowdown

Pricing pressure from the OEMs

Recently set up JVs in nascent stages of operations might require funding support from MIL over medium term

Split in JVs and/or technology tie-ups with global partners

Delayed recovery of domestic and global PV/2W industry

Adverse government regulation

Increased reliance on external borrowings over recent years to fund investment and capex requirements

Intense competition from other auto ancillary makers

Can Minda Industries pull off a Motherson Sumi?

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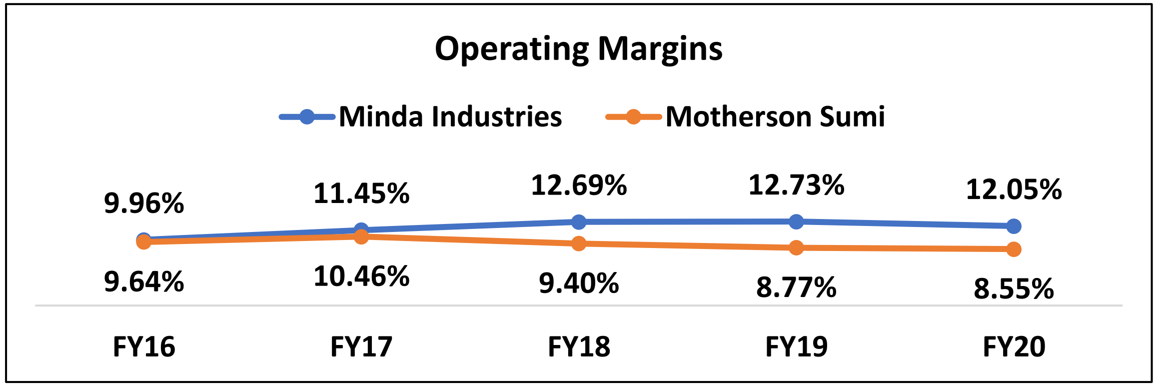
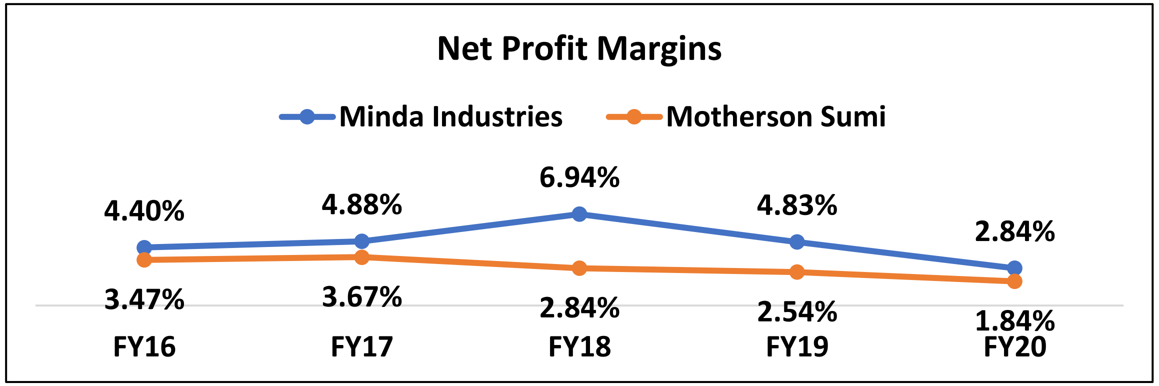
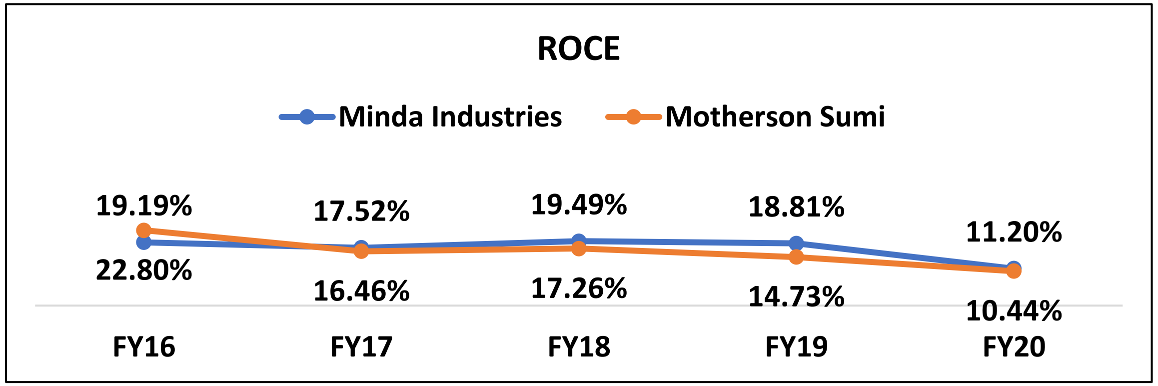
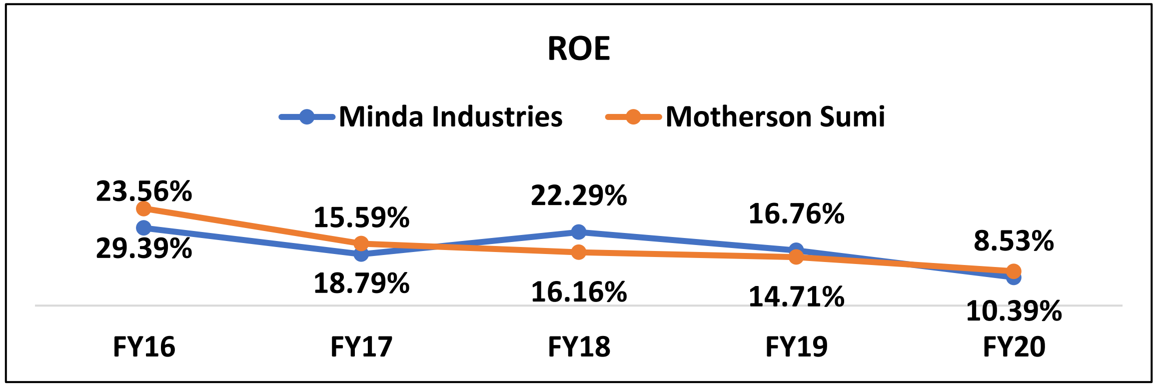
Motherson Sumi Systems Ltd is a global auto component empire spanning 41 countries. A good part of the exponential growth of the group has been realised through 21 acquisitions across the globe. The group now has over 270 facilities, 24 design centres, and 32 collaborators. We believe MIL is following a similar responsive approach which the Motherson Sumi has pioneered and perfected over the last decade.

FY20 (INR Cr.)	Minda Industries	Motherson Sumi
M. Cap	10,479.00	49,722.00
Revenue	5,465.14	63,536.80









Source: Company Disclosures

Future Outlook

<u>Minda Industries has been one of the best performing auto ancillary company in the world before the Indian auto slowdown materialized. Even during challenging times, the company has outperformed the industry through a disciplined and flexible approach in entering new product segments, adding new clients and increasing kit value.</u>

MIL's diversified product and client portfolio has enabled it to absorb shocks impacting the auto ancillary sector effortlessly while its competitors struggled to maintain a steady ship.

The company's ability to quickly read emerging demands and meeting them through technological tie-ups or R&D capabilities has been instrumental in its exponential growth. We believe the company will continue its progress through this method.

The management believes that electrification will further increase kit value. The company's entry into electronic components and related segments is a testimonial to this. BS-VI implementation created strong demand for certain products such as engine-related sensors, advance filtration, seat belt reminders along with increasing premiumisation demand for LEDs and alloy wheels. MIL is strongly positioned to benefit from these changes, as these products have higher margins and can drive up earnings growth.

While the company will benefit from a rich product portfolio in the long run, being a major OEM player, growth will largely depend on OEM growth in the short term.

<u>Higher pace of OEM ramp-up post Covid is set to rub off positively on MIL, with encouraging management commentary around sustainability of recent margin in coming times coupled with the company coming out of a lumpy capex cycle making MIL our top pick in the auto ancillary sector.</u>

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, **the analyst have no position in the stock** covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
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