

Minda Corp Ltd



Minda Corp Ltd

Moving towards Mobility and Connectivity

CMP INR 108	Target INR 145	Potential Upside 34%	Market Cap (INR Mn) 22,825	Recommendation Buy	Sector Auto Ancillary
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Key Financials

Particulars (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Total Sales	19706.4	24455.2	29620.4	36154.7	40624.6
EBITDA	1817.6	2233.6	1802.2	2712.0	3887.1
PAT	895.3	1072.7	983.9	1329.1	2009.8
EPS	4.3	5.2	4.7	6.4	9.7
EBITDA margin (%)	9.2%	9.1%	6.1%	7.5%	9.6%
NPM (%)	4.5%	4.4%	3.3%	3.7%	4.9%
PE	25.0	20.9	22.8	16.9	11.2

Source: Company, KRChoksey Research

MARKET DATA

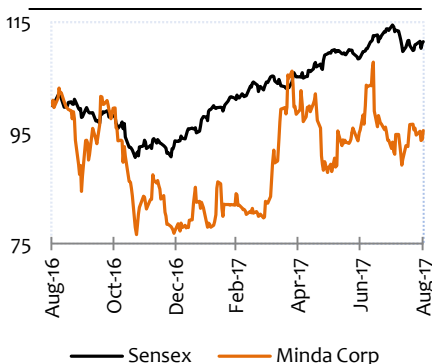
Shares outs (Mn)	209
Equity Cap (INR Mn)	419
Mkt Cap (INR Mn)	22825
52 Wk H/L (INR)	127/86
Volume Avg (3m K)	288.7
Face Value (INR)	2
Bloomberg Code	MDA IN

Smart Acquisition for Smart Automobile Future :

Company today acquired EI LABS India Pvt. Ltd. ("EI Labs") for an approx enterprise value of INR 63Mn to enhance Group's expertise in Connected Mobility and IoT Solutions.

EI Labs which is located at Bangalore, Karnataka and was founded by professionals with extensive global experience in the high-tech IT industry, with a vision to touch human life through embedded, intelligent technology that can improve safety, productivity and quality in their daily life.

Company's acquisition should improve company's prospects into fast growing Connected Mobility market in India and abroad across Vehicle segments. We believe company's acquisition will not only enhance in-house technology and find synergies across products and existing portfolio which will eventually result in providing cutting edge Internet of Things (IoT) solutions for Automotive and other related applications.

SHARE PRICE PERFORMANCE


Outlook and View: Company along with its subsidiaries is working on various technology majorly related to Euro 6 norms. The company is working on electronic fuel induction, ABS and ADAS, EGT, EGRT sensors and Integrated Starter-Generation few of which are yet to mandatorily implemented. However, we believe with growing concerns on emission norms coupled improving standards on safety should help company's product mix to gain traction.

We expect company's top-line growth mainly driven by company's PV segment, we expect the PV sales to contribution 45% of revenues by FY19E from current ~36% mainly led by company's product portfolio of Driver Information and Safety and Security business. Company's CV segment is also likely to witness growth ~18% CAGR between FY17 to FY19E on back of implementation of stricter emission norms. Company's 2-W segment growth is expected out of increasing digitization of instrument clusters and premiumization of bikes. We believe this should result in 12% CAGR growth in company's 2-W portfolio. We believe company's strategy of offering a complete solution to OEM's through technology led products should result in top-line growth of 17.1% CAGR growth between FY17 to FY19E.

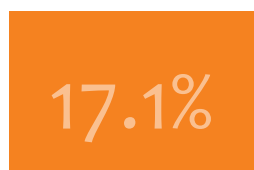
We strongly believe once the restructuring policies are set in place, we expect the margins to improve on back of improved product mix and localization of raw materials, leading to better pricing. Hence, we now expect company's EBITDA margin to improve from 6.08% in FY17 to 9.6% by FY19E. We continue to have a "BUY" rating on the stock with a **Target of INR 145** valuing company at the stock at 15x FY19E EPS of INR 9.7, indicating **34%** upside from CMP of INR 108

MARKET INFO

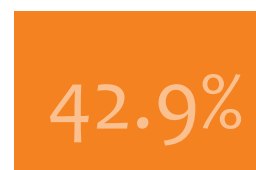
SENSEX	31892
NIFTY	9974

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	70.21	70.21	70.21
FIIIs	0.18	0.08	0.96
DIIIs	8.32	8.29	9.76
Others	21.29	21.42	19.07
Total	100	100	100



Revenue CAGR between FY 17 and FY 19E



PAT CAGR between FY 17 and FY 19E

ANALYST

 Ankit Merchant, ankit.merchant@krchoksey.com, 91-22-6696 5533

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About EI Labs:

EI Labs India is founded by professionals with extensive global experience in the high-tech IT industry, with a vision to touch every human life through embedded, intelligent technology that can improve safety, productivity and quality in daily life.

EI Labs Business:**▪Automotive:**

The company offers cutting edge Telematics Solutions for Any Connected Vehicle. The Only Indian Company with over 10 years of experience focused on Automotive Telematics. Be it the Telematics Gateway Device, Car to Business connectivity Protocol or a Cloud enabled connectivity Software platform Our experts can ensure that your car is On the Cloud, delivering value to your customer.

▪Defense:

EILABS offers Indigenous Digital Communication COTS products for the Indian Defense. Backed by life cycle support and collaborative innovation, we are there to support the Indian forces with products tailor made to suit the custom requirements at Indian price points.

▪tEther and GPS Tracking:

Tiny low power tags weave the fabric of connectivity, stitching together sensors, wearables, machines, automobiles with the world of smart phones, delivering alerts seamlessly over the cloud. tEther has already been adopted by India's leading accessory brand to build a women's safety product.

EI Labs Customer Base:

Praxiar, BOSCH, Cognizant, BSNL, Bharat Electronics, 3M, Britannia, Mahindra, Autometers Alliance Ltd, Taj, TITAN, TAFE.

EI Labs Products Synergy with Minda Corp:

We believe Minda Corp's Annual Report 2017 focused on changing technology, Mobility and connectivity of vehicles. Company's annual report highlights rapid change in technology is leading to enormous opportunities and threats looming over the Automobile sector. We believe Minda Corp's acquisition of EI Labs will significantly help company's two main product types:

1) Safety, Security & Restraint System (38% of FY17 Revenues)

Electronic & Mechanical Security Systems, E- Bike Controllers, Immobilizers, Latches, Striker, Door Handles, Electronic Body Controllers, Start Systems, Power Closure Systems, Fuel Lid Actuator, RCDL, ESCL, PEPS, Hood, Tail Gate, Seat Latch Hinges, LED Soft Touch, Camera Modules, Starter Motors & Alternators, Keys & Key Duplicating Machines & Die Casting.

2) Driver Information & Telematics System (48% of FY17 Revenues)

Instrument Cluster, Dashboard Assemblies, Digital Clocks, Tank Units & Gauges, Chime Bells & Relays, Speed Sensors, Temperature Sensors, Position Sensors, Pressure Sensors, WIF Sensors, Wiring Harness, Coupler & Terminals, Relay & Junction Box, Steering Roll Connector.

We strongly believe EI's experience of:

- Building the connectivity for India's first connected car embedded solution.
- Own local R & D put three car platforms and one tractor Platform on the cloud already.
- A middle ware for the tractor gate way platform having the rugged all weather devices as OEM fitment.
- GPS enabled announcements for bus passengers – first step towards ITS solution for Smart Cities.
- Designing connectivity solutions for smart wearable's to take it beyond fitness – Safety, Security and Health applications.

Should help Minda Corp in innovating the existing product line and help welcoming this great disruption with open arms, innovating minds and ever-sharpening capabilities. Company's proactive working with OEM customers, in India and elsewhere in Europe, North America and Asia Pacific through EI Labs should help company ahead of the innovation curve. We believe this should often result in partnering its customers in developing breakthrough and cost efficient solutions that make them sustainable and their vehicles desirable.

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Q4FY17 Result Snapshot

Exhibit 1 Consolidated Result Update (INR Mn)

Particulars (Mn)	Q4FY17	Q3FY17	Q4FY16	Q-o-Q	Y-o-Y
Net Sales	7521	7129	6336	5.50%	18.70%
Other operating income	92	101	111	-8.42%	-16.61%
Net Sales & Other Operating Income	7614	7230	6447	5.30%	18.09%
Total Expenditure	7276	6983	5953	4.19%	22.23%
(Increase) / Decrease In Stocks	-992	-57	-56	1634.97%	1665.84%
Purchase of Finished Goods	71	151	42	-53.05%	69.95%
Cost of Raw Materials	5921	4695	3923	26.11%	50.92%
Operating & Manufacturing Expenses	1079	928	890	16.24%	21.19%
Employee Cost	1198	1267	1154	-5.41%	3.81%
PBIDT (Excl OI)	338	247	494	36.74%	-31.70%
EBITDA Margins (%)	4.4%	3.4%	7.7%	102bps	-323bps
Depreciation	218	211	188	3.27%	16.01%
EBIT & Exceptional Item	120	36	306	234.73%	-60.99%
Other Income	126	202	83	-37.59%	52.23%
EBIT	246	238	389	3.28%	-36.87%
Interest	92	90	42	1.89%	119.95%
EBT	154	148	348	4.12%	-55.64%
Prior period adjustment	27	0	0	0.00%	0.00%
PBT	128	148	348	0	-55.64%
Tax	34	117	93	-71.24%	-63.98%
Net Profit from ordinary activity after tax	94	32	255	197.78%	-63.04%
Share of profit after tax of associate				-	-
Minority Interest	97	-169	-10	-157.26%	-1121.05%
PAT	191	201	264	-4.93%	-27.64%
PAT Margin (%)	1.2%	0.4%	3.9%	80bps	-271bps
EPS	0.9	1.0	1.3	-6.28%	-28.67%

Source: Company, KRChoksey Research

Key Con-call Highlights:

- Company is recording healthy order traction across the categories, company's order book in Q4 FY17 stands at INR 2,580Mn, majorly from Domestic OEMs (INR 1840Mn)
- The Management is focusing on bringing down the cost, which is been dragged down by Minda Furukawa. The Management targets to cut-down the expenses and will completely exit its supply to Renault-Nissan by the end of the Q1 FY18. Apart from Minda Furkuwa, the Management is taking efforts to reduce its operational cost by localizing content and by bringing down the cost of employees and looks forward to achieve (~8 to 9% margin by the end of FY18).
- Company in its JVs, especially Minda Stonridge is working on sensors for EURO-6 norms. Company expects to generate healthy revenues going forward. Minda VAST is working on various technologies pertaining to access systems and expects to generate a healthy portfolio of products and thereby the revenues.
- Company's technology centre, SMIT is fully operational now and has close to 42 employees hired from varied background (from Software and Mechanical) and is working on building indigenous products. Company is also likely to receive R&D benefits on taxation going forward.
- Company is also working on Maruti Suzuki's new latest generation Swift, Dzire and (Baleno/ Igin) for various products, mainly interior systems from Minda KTSN
- Company expects strong operational performance in coming financial year resulting out of top-line growth of 12% to 15% and expects to drive the ROCE to 21% by FY19-2020.

ANALYST

Ankit Merchant, ankit.merchant@krchoksey.com, 91-22-6696 533

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Exhibit 1: Income Statement

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
Total Sales	19706.4	24455.2	29620.4	36154.7	40624.6
COGS	11969.1	14986.1	18678.6	22596.7	24781.0
EBITDA	1817.6	2233.6	1802.2	2712.0	3887.1
Depreciation	602.6	744.6	847.2	899.2	957.0
Interest & Finance charges	356.8	333.8	409.3	433.9	446.9
Other Income	226.7	172.9	485.8	542.3	487.5
Extraordinary items	22.4	137.3	-26.6	100.0	100.0
EBT (as reported)	1107.3	1465.4	1004.9	2021.3	3070.7
Tax	271.1	365.7	330.8	667.0	1013.3
PAT	836.2	1099.7	674.1	1354.3	2057.4
Min. Int.	-13.7	29.8	-286.7	40.2	67.6
Share in gain/loss of assoc.	44.3	2.8	0.0	15.0	20.0
RPAT	894.2	1072.7	960.8	1329.1	2009.8
Extraordinaries adj.	1.0	0.0	-23.1	0.0	0.0
APAT	895.3	1072.7	983.9	1329.1	2009.8
RPAT after pref. div.	894.2	1072.7	960.8	1329.1	2009.8
APAT after pref. div.	895.3	1072.7	983.9	1329.1	2009.8

Source: Company, KRChoksey Research

Exhibit 2 : Balance Sheet

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
Equity Share Capital	414.6	416.0	416.0	416.0	416.0
Reserves	4059.0	5065.6	5899.4	6786.9	8196.7
Net worth	4473.6	5481.5	6315.4	7202.9	8612.6
Preference capital	192.0	192.0	192.0	192.0	192.0
Total loans	4451.1	4590.2	5548.2	5248.2	5048.2
Deferred tax liability (Net)	57.0	112.7	106.9	100.0	100.0
Capital Employed	9626.9	11257.1	12774.3	13707.4	14999.3
Gross Block	8920.6	11722.8	13733.7	14483.7	15233.7
Depreciation	4374.8	5974.8	6822.0	7721.2	8678.2
Net block	4545.8	5748.0	6911.7	6762.5	6555.5
CWIP	153.2	131.3	0.0	196.0	220.8
Intangible	1162.2	1438.7	1542.9	1730.0	2000.0
Investments	289.1	52.1	52.1	266.7	406.2
Inventories	2307.7	3210.2	4135.6	4356.8	4277.3
Sundry debtors	3176.2	4352.7	4999.1	5668.3	6121.5
Cash and bank	441.1	882.0	620.2	1264.8	2671.5
Loans and advances	1752.0	1600.9	1405.9	1722.5	2681.2
Other Current Assets	186.8	19.7	156.9	205.9	81.2
Total Current assets	7863.9	10065.5	11317.7	13218.3	15832.7
Total Current liabilities	4588.9	6450.4	7381.6	8919.1	10630.4
Net Current assets	3274.9	3615.1	3936.1	4299.2	5202.3
Capital Deployed	9626.9	11257.1	12774.3	13707.4	14999.3

Source: Company, KRChoksey Research

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Exhibit 3 FY17: Cash flow statement

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
PAT	783.6	836.2	1099.7	674.1	1354.3
Depriciation & Amortization	15.8	1600.1	847.2	899.2	957.0
Incr/(Decr) in Deferred Tax Liability	-29.0	55.7	-5.8	-6.9	0.0
(Incr)/Decr in Working Capital	-157.6	100.7	-582.8	281.5	503.5
(Incr)/Decr in Mis. Expense not written off	0.0	0.0	0.0	0.0	0.0
Cash Flow from Operating	651.8	2886.0	646.0	2568.3	3585.5
(Incr)/ Decr in Gross PP&E	-448.8	-2802.2	-2010.9	-750.0	-750.0
(Incr)/Decr In Work in Progress	-3.0	21.9	131.3	-196.0	-24.8
(Incr)/Decr In Investments	-43.9	237.0	0.0	-214.6	-139.5
(Incr)/Decr in Other Non-Current Assets	-55.1	-346.7	-163.8	-308.6	-431.4
Cash Flow from Investing	-550.8	-2890.1	-2043.4	-1469.2	-1345.7
(Decr)/Incr in Debt	-390.7	171.2	975.7	-247.2	-117.9
(Decr)/Incr in Share Capital	212.0	1.4	0.0	0.0	0.0
(Decr)/Incr in Securities Premium	-212.0	0.0	-983.9	0.0	0.0
(Decr)/Incr in Minority Int.	255.1	365.6	0.1	259.6	-67.6
(Decr)/Incr in Other reserves	35.9	31.5	-4472.6	-912.7	-1457.4
Dividend	-100.4	-124.7	-283.1	-441.6	-600.0
Cash Flow from Financing	-200.0	445.0	1135.5	-454.4	-833.1
Incr/(Decr) in Balance Sheet Cash	-99.1	440.9	-261.9	644.6	1406.6
Cash at the Start of the Year	540.2	441.1	882.0	620.2	1264.8
Cash at the End of the Year	441.1	882.0	620.2	1264.8	2671.5

Source: Company, KRChoksey Research

Exhibit 4 FY17: Ratio Analysis

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
Growth (%)					
Total Sales	23.6	24.1	21.1	22.1	12.4
EBITDA	44.6	22.9	-19.3	50.5	43.3
APAT	12.8	19.8	-8.3	35.1	51.2
Profitability (%)					
EBITDA Margin	9.2	9.1	6.1	7.5	9.6
Adj. Net Profit Margin	4.5	4.4	3.3	3.7	4.9
ROIC	9.9	10.8	5.4	9.2	13.8
ROE	21.9	21.6	16.7	19.7	25.4
Per Share Data (Rs.)					
AEPS	4.3	5.2	4.7	6.4	9.7
Reported CEPS	6.8	8.8	7.3	10.8	14.5
BVPS	21.6	26.3	30.4	34.6	41.4
Valuations (x)					
PER (x)	25.0	20.9	22.8	16.9	11.2
PEG (x)	-0.3	1.0	-2.6	0.0	0.0
P/BV (x)	4.7	3.9	3.4	2.9	2.5
EV/EBITDA (x)	14.3	11.9	15.2	10.1	7.0
EV/Net Sales (x)	1.3	1.1	0.9	0.8	0.7
Dividend Yield (%)	0.4	0.5	1.1	1.7	2.4
Turnover days					
Debtor Days	57.5	56.9	57.6	54.7	53.9
Payable Days	132.3	134.4	135.1	131.7	144.0
Gearing Ratio					
D/E	1.0	0.8	0.9	0.7	0.6

Source: Company, KRChoksey Research

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Minda Corp Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
1-Sep-17	108	145	BUY	Buy	More than 15%
29-May-17	102	145	BUY	Accumulate	5% – 15%
07-Apr-17	105	142	BUY	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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Please send your feedback to research.insti@krchoksey.com

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Kisan Ratilal Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.

ANALYST

Ankit Merchant, ankit.merchant@krchoksey.com, 91-22-6696 5333

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