MORNING FARSIGHT

Tuesday, August 21, 2018

MINDA CORPORATION	CMP:RS 155	TRGT:RS 190	TIME HORIZON: 1 YEAR

Minda Corporation (MCL) has reported good earnings for Q1FY19 with 34% YoY growth in Income to Rs 778 cr, whopping 65% EBITDA growth at Rs 73.1 cr with healthy EBITDA margin of 9.4% against 7.6%a year ago (EBITDA margin expansion of 180 bps, thanks to improvement in product mix and operating leverage) and PAT of Rs 37.6 cr against Rs 23 cr YoY, a growth of 64%. Going ahead, management has given a growth guidance of over 20% and is set to surpass industry growth. A major growth trigger for MCL will be the implementation of BS6 in Q4FY20 and there are 4 major growth drivers for Minda Corp in coming years: (i)Two Wheeler sensors to be addressed through Minda-Stoneridge JV, (ii) Wiring harness realizations are expected to increase from Rs 400 cr currently to Rs 1,000-1,200 cr, post BS6 implementation. (Manufactured by Minda Sai), (iii) Exports to increase to Rs 500 cr by FY20e from Rs 275 cr in FY18 (were Rs 170cr in FY17), (iv) Inorganic Growth Through Acquisitions, for which the company has already raised Rs 310 Cr via QIP in May 2018. Management also expects EBITDA margins to move towards early teens in the coming years from 10.5% in FY18 on the back of improvement in product mix and operating leverage. MCL has been able to pass on the steep increase in commodity costs to OEMs, although the pass through happens with a one quarter lag. One must note that Minda Corp is a single source supplier to Maruti for air vents, plastic decks and will be getting new business for glove boxes and other interior parts and also supplies wiring harness to Maruti through its Minda Furukawa JV whereby the JV has 18% wallet share of Maruti. Subsidiaries are also doing quite well. During FY18, Minda Furukawa posted a loss of Rs 7.7 cr, of which, the company's share was loss of Rs 3.8 cr. This was on account of Rs 7.8 Cr one-time exceptional item during Q4FY18. On operating level the JV has achieved break-even (EBITDA margin of 6%). Management focus will be on profitability for this JV rather than growth in the near term. FY18 revenues for the JVs Furukuwa/VAST/Stoneridge stood at Rs 413/254/423 cr while their respective profits stood at Rs -7.7/12/21 cr (Company's share of profits were 50% of these figures). Minda Corp has diversified product portfolio that encompasses (A)Safety, Security & Restraint Systems; (B) Driver Information & Telematics Systems and (C) Interior Systems for auto OEMs. These products cater to 2/3 wheelers, passenger vehicles, commercial vehicles and after-market The Company has 34 state of the art manufacturing facilities - India (28 plant & two offices), South-East Asia (2 plants & one representative office in Japan), Europe (3) and North America (1). Crisil has recently upgraded Minda Corporation's rating on the long-term bank facilities to 'As/Stable'. With Annual Tumover expected to reach Rs 3,200 cr in FY19 and Rs 3,800 cr in FY20 (was at Rs 2,634 cr in FY18), stock available at Market Cap of Rs 3,510 cr and EV of Rs 4,080 cr is trading at EV/Sales of 1.3x/ 1.1x respectively. Further, company is likely to report an EBITDA of Rs 320 cr / Rs 400 cr for FY19 / 20, giving EV/EBITDA of 12.7x / 10.2x, which are seen attractive with Revenue CAGR of 20% and PAT CAGR of 35% visible over the next two years PE of 16.3x on an estimated EPS of Rs 9.50 for FY20 is also seen attractive. Share ruling at Rs 155 can move to Rs 190 in the next 1 year.