

Minda Industries Q3FY21

Financial Results & Highlights

Brief Introduction:

Minda Industries is a supplier of automotive solutions to original equipment manufacturers. The Company offers a range of products across various verticals of auto components, such as switching systems, acoustic systems and alloy wheels, among others.

| Standalone Financials (In Crs) | | | | | | | | |
|----------------------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| | Q3FY21 | Q3FY20 | YoY % | Q2FY21 | QoQ % | 9MFY21 | 9MFY20 | YoY% |
| Sales | 1087 | 788 | 37.94% | 905 | 20.11% | 2223 | 2464 | -9.78% |
| PBT | 81 | 35* | 131.43% | 96 | -15.63% | 96 | 133* | -27.82% |
| PAT | 61 | 26 | 134.62% | 64 | -4.69% | 73 | 102 | -28.43% |
| Consolidated Financials (In Crs) | | | | | | | | |
| | Q3FY21 | Q3FY20 | YoY % | Q2FY21 | QoQ % | 9MFY21 | 9MFY20 | YoY% |
| Sales | 1812 | 1338 | 35.43% | 1478 | 22.60% | 3710 | 4149 | -10.58% |
| PBT | 164 | 73* | 125% | 129 | 27.13% | 137 | 226* | -39.38% |
| PAT | 121 | 53 | 128% | 84 | 44.05% | 87 | 162 | -46.30% |

*Contains an exceptional item of Rs 5.17 Cr

Detailed Results:

- The company had a very good quarter with a revenue rise of 35% YoY and consolidated PAT growth of 128% YoY.
- The EBITDA margins rose 236 bps YoY to 14.7% in Q3FY21. EBITDA for Q3 stood at Rs 264 Cr vs Rs 163 Cr last year growing 62% YoY.
- The revenue of Lighting, Acoustics, and Others grew in Q2 while Switches and Light Metal saw slight declines.
- Almost 83% of revenues were from domestic sources while 17% were from exports. In terms of channels, 86% of revenues were sourced from OEMs while 14% were from the replacement market. 48% of sales were for 2 wheelers while 52% were for 4 wheelers.
- The revenue share of various segments in Q3 is as follows:
 - Switches: 35%
 - Lighting: 24%
 - Acoustics: 10%
 - LMT: 15%
 - Others: 16%
- The Harita merger has been approved but final orders are pending.
- The latest operational updates on the company's various segments are:
 - Switches:
 - 2W Switch: Acquired new customer John Deere

2. 4W: New orders received for Steering Wheel Switch, second gear switch driver side switch, Power window, Sunroof Switches, Audio and panel switches from Indian OEMs
2. Lighting:
 1. 2W Lighting: New LED order for Yamaha
3. Acoustics: Clariton Horn received new orders from Ford, KIA, FCA and Hyundai
4. LMT:
 1. 2W alloy wheel 3rd Line also got operational
 2. Commercial sales started and New Orders received from OEM
5. Others:
 1. Sensor: - Started Manufacturing and supply of Wheel speed Sensor for Korea
 2. MKL: Received new Business from MSIL
8. The company announced an interim dividend of Rs 0.35 per share.

Investor Conference Call Highlights

1. The auto industry revival was backed by sustained retail sales momentum post festivals, low channel inventory, and a soft base and with rising preference for personal mobility and continued positive sentiments in rural and semi-urban markets.
2. Most automotive industry segments have reported successive improvement in offtake throughout the second half of 2020 on the back of the initial bounce provided by pent-up demand, followed by the preference for affordable personal mobility and continued rural resilience.
3. The proposed PLI scheme of INR 57,000 crores for the auto sector is a major development in Q3.
4. The new voluntary vehicle scrappage strategy policy in the Union Budget is expected to encourage the consumer demand towards new and environment-friendly vehicles.
5. The Finance Minister has also announced that custom duties on specified auto parts, like ignition wiring sets, safety glass, parts of signaling equipment, et cetera, will be hiked to 15%. This bodes for local component makers like Minda.
6. The CV segment has also gotten a welcome push from the Govt announcing a new scheme worth INR 18,000 crores to support the augmentation of public bus transportation services.
7. The management has stated that Minda has been working to upgrade our existing group products to meet requirements specific to electric vehicles like low energy consumption, light weighting. It already has several products in this segment including LED headlamps, tail lamps, side indicators, low-current switches, and electronic horns.
8. Minda has also launched new sensors specific to electric vehicles like APS or accelerated position sensors, brake pedal sensors for regenerative braking, EV battery temperature sensors, and also vacuum sensors for EV brake systems.
9. The management believes that the segment of 2Wheelers and 3Wheelers will have the largest and the quickest adoption in the electric vehicle segment and primarily because there is less dependency on charging infrastructure and as well as the range of these vehicles would be enough for more city driving conditions.
10. Thus Minda's focus will be on these new products for 2Wheelers and 3Wheelers which include ECUs, DC-DC converters, on-board, and off-board chargers, telematics control units, and smart plugs. It is also working on developing battery management systems for lithium-ion batteries along with its technical partner, Auto Motive Power, in the USA.

11. The lighting business achieved a revenue of INR 426 crores for Q3, contributing to 24% of total turnover. Minda is working to build a master plan for setting up a greenfield plant for meeting increased demand in the 4Wheeler lighting business.
12. LMT segment achieved revenue of INR 270 crores for Q3, contributing to 15% of total turnover.
13. The company saw sales of Rs 30 Cr in Q3 from the new 2W alloy wheels. The last product line in this segment is expected to be completed by March.
14. Acoustics achieved revenue of INR 188 crores for Q3, contributing 10% of total turnover.
15. Other businesses achieved revenue of INR 288 crore for Q3, contributing to 16% of the overall top line. It mainly comprised of sales from sensor business at around INR 55 crores, a similar amount from blow molding parts business, and around INR 33 crores from i-SYS.
16. Total borrowings as of December 31, 2020, were INR 1,083 crores compared to INR 1,152 crores for Q1 FY '21.
17. The company has done Rs 250 Cr of capex to date in FY21.
18. It has around Rs 190 Cr of cash currently.
19. The aftermarket segment improved 50% QoQ. The management expects this segment to reach annual sales of Rs 1000 Cr.
20. MKL will be incurring an expenditure of around INR 87.3 crores for enhancement of capacity and setting up an in-house paint shop in Bangalore.
21. The paint shop will be set up on a greenfield expansion which is expected to be completed by April 2022.
22. The growth in switches has been above 30-35% mainly on the back of new customer additions in 4W and the addition of many components in 2W due to BSVI.
23. With the rise in sales volumes, the company has been able to achieve operating leverage which has resulted in margin expansion according to the management.
24. The management states that there is still scope for margin expansion in the lighting and acoustics businesses.
25. The management expects Minda to become free cash positive next year.
26. The management states that most of Minda's products excluding filters can go into EVs.
27. The overall kit value has risen for Minda with the addition of more switches to the average portfolio.
28. In 2W alloy wheels, the management expects to scale up to fast and revenues from this segment to rise to Rs 350-400 Cr in FY22.
29. The new orders from Maruti will be commercialized in FY22 and the company may need to add a new facility in Gujarat to be able to meet this order.
30. The 4W alloy wheel is expected to launch in the upcoming festive season in 2021.
31. The average kit value currently is above Rs 15000 and the new products for EVs should add around 7000-10000 to it.
32. These new products should go into production around the middle of FY22 and should go out in 1.5 years.
33. The annualized revenues from sensors have risen from Rs 120 Cr to Rs 200 Cr currently. The management's objective is to take this number up to Rs 400-500 Cr in the next 3-5 years.
34. The primary reason for the Delvis acquisition was to bridge the gap and stay competitive with global majors in the lighting industry, all of which are now present in India right now.
35. The company is looking to enhance its marketing in Europe and ASEAN and is setting a new office in Thailand.

36. The management has stated that the focus currently is not to drive sales from new customers but to do so by increasing revenue share from existing customers.
37. ROCE for Q3 has risen above 20%.
38. The management states that from existing facilities, Minda will be able to earn 50% more revenues at the most.
39. Minda intends to start its new customers with some small volumes from the existing 4-million-wheel capacity in the alloy wheel segment and add new customers only after phase 2 is completed in the next 1.5 years.
40. Manpower costs have risen 20% QoQ mainly due to an increase in semi-permanent or blue collar workers due to a rise in volumes.
41. The management expects the sales and volume momentum from Q3 to sustain in the short term at least.
42. The margins will hard to maintain at the current level of 14.7% as many fixed costs will rise as the economy normalizes according to the management.
43. The management has not seen much material impact from the PCB shortage.

Analyst Views:

Minda Industries has been one of the top auto ancillary providers in the country. 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. The company has had a very good quarter with a 35% YoY rise in sales and >100% YoY rise in PAT. It is looking to focus on the new and rising businesses of alloy wheels and sensors and develop a full portfolio geared towards EVs. The company's acquisition of Delvis is yielding steady orders from global auto majors and is also helping Minda compete effectively in the domestic market against international competitors. There is a big opportunity here for component makers like Minda from the recently announced PLI scheme for the auto industry. It remains to be seen whether this momentum will sustain and whether Minda will be able to realize its export ambitions with the new PLI scheme. The management has a goal of doubling revenues in 4-5 years. It is still early days to comment on that. Nonetheless, given the new orders that the company has bagged, their improving product portfolio, and massive import substitution opportunity, Minda remains a compelling auto ancillary stock to watch out for.

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