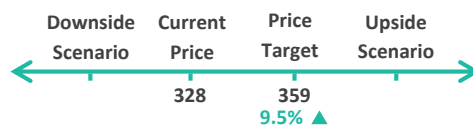


Buy\*



February 20, 2019

## Minda Industries

Minda Industries board approved the merger with Harita Seating Systems Ltd.  
The deal is the larger play in the parts market

### Merger Summary

- The complete merger process would take 9-10 months of time as it requires approvals from NCLT, SEBI, Exchanges, Shareholders, etc.
- The company has kept the merger option open and it would be either a share swap merger or issue of four non-convertible redeemable preference shares to Harita shareholders for every one equity share held in Harita.
- The share swap merger ratio is kept at 1.52:1 i.e. 152 fully paid equity shares of Rs. 2 each of MIL for every 100 fully paid up equity shares of Rs. 10 each held in Harita.
- The redeemable preference share is of three year tenor and would yield 7.5% p.a. Minda Industries will issue four fully paid up 0.01% non-convertible redeemable preference shares of Rs. 100 each at an issue price of ~Rs. 121 for every one fully paid equity share of Rs 10 held in Harita.
- The two options has been given in order to make the deal more transparent & attractive. In case, share swap options chosen, the shareholding of the promoters of Minda Industries would come down by 4.8%.

### Synergies Post Merger

#### For Minda Industries

- Minda Industries would get an access to the seating products and will broaden its existing product portfolio. Moreover, Minda will get an access to Harita's German JV partner Fehrer. This will aid in enhancing its R&D capabilities.
- The company would improve its revenue mix in the CV segment, where the realization is higher.
- There are opportunities exist for more premiumization & light weighting in the seating solutions, which we believe Minda would leverage from the strong R&D capabilities of its JV partner Fehrer.
- Minda Industries would get an access to Harita's client list, which can be used for cross selling its existing products.

#### For Harita Seating Systems

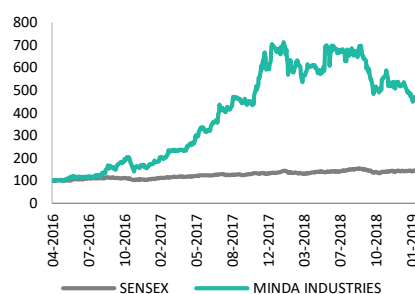
- Harita Seating would get an access to Minda's strong & long list of customers.
- The company is not present in the passenger cars segment and we expect Minda with its strong OEM relationship would take Harita to enter into PV segment too, where the opportunity size is huge.
- It would also get an access to Minda's strong 30,000 aftermarket touch points.
- The cost synergies to arrive post merger and would maximise the productivity gains.

We believe this merger is a win-win for both the companies as it would deliver significant near to long-term growth opportunities and we considered it as a the largest acquisition by Minda Industries so far. The strategy is to continue to grow the top line, expand the product base and increase the kit value. Both the companies would easily leverage each others relationship with OEMs. The synergies are across products, customers, distribution reach and technologies. Overall, the merger will provide enormous opportunities as according to the latest publication, the Global automotive seats market by CY21 would reach to USD 414.4 million. We have valued the company by taking an average of DCF and EV/EBITDA Methodology. We have assigned 11.4x to its FY20E EBITDA, in-line to its last two years average EV/EBITDA on account of huge potential and growth opportunities in the \$49bn domestic auto ancillary industry.

Market Data	
Industry	Auto Ancillaries
Sensex	35,353
Nifty	10,604
Bloomberg Code	MINDA:IN
Eq. Cap. (INR Crores)	53
Face Value (INR)	2
52-w H/L	455/256
Market Cap (INR Crores)	8,672

Valuation Data	FY19E	FY20E	FY21E
OPM	12.3%	12.7%	13.1%
NPM	6.1%	6.4%	6.7%
P/E (x)	24.8	20.7	17.1
EV/EBITDA (x)	10.9	9.2	8.2

### Minda Industries vs. SENSEX



### Shareholding Pattern (%)

	Dec-17	Sep-18	Dec-18
Promoters	71%	71%	71%
FII	8%	10%	11%
DII	7%	5%	4%
Retail	14%	14%	14%
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	3,386	4,471	6,068	7,038	8,012
<b>Growth (%)</b>	<b>34.0%</b>	<b>32.0%</b>	<b>35.7%</b>	<b>16.0%</b>	<b>13.8%</b>
EBITDA	374	534	749	897	1,051
<b>Growth (%)</b>	<b>57.3%</b>	<b>42.8%</b>	<b>40.3%</b>	<b>19.8%</b>	<b>17.1%</b>
EBITDA Margin (%)	11.0%	11.9%	12.3%	12.7%	13.1%
PAT	185	331	373	447	541
<b>Growth (%)</b>	<b>68.2%</b>	<b>78.8%</b>	<b>12.7%</b>	<b>20.0%</b>	<b>20.9%</b>
EPS (INR)	6.2	11.7	13.2	15.8	19.2
P/E (x)	15.6	25.2	24.8	20.7	17.1
EV/EBITDA (x)	6.6	13.8	10.9	9.2	8.2

Source: Company, NSPL Research | We will incorporate Harita's financials post the final merger

\* Read last page for disclaimer & rating rationale



### About Harita Seating System

The company incorporated in the year 1988, which provides seating solutions for driver and cabin seating for commercial vehicles, tractors, construction equipment and passenger seats for buses. Harita along with its subsidiaries has 12 manufacturing plants located in Tamil Nadu, Maharashtra, Karnataka, Uttarakhand, etc. Harita Fehrer Ltd, Germany is its JV partner.

Harita Seating Financials (INR Crores)	FY17	FY18	YoY (%)
Revenues	790	905	14.6%
EBITDA	63	87	38.1%
EBITDA Margin (%)	8.0%	9.6%	1.6%
PAT	28	38	35.7%

Harita Seating is broadly present in all the automotive segment except passenger vehicles. The 2W contributes about 30%, CV 25%, Tractors 10%, Construction Equipment 15%, Buses 10% and Exports 10% in the topline. TVS Motors is the largest customer in 2W segment.

### Major Customers

Commercial Vehicles	Tata Group
	Ashok Leyland
	NISSAN
	M&M
	FUSO
	Bharat Benz
Tractors	TAFE
	John Deere
	New Holland
	M&M
	Escorts
	Sonalika
Buses	Volvo
	Mercedes
	SML Isuzu
	Tata
	Scania
Construction Equipment	Tata Hitachi
	JCB
	Hyundai
2W & Others	Loncin
	BMW Motorrad
	Royal Enfield
	TVS
	Yamaha
	LEAR
Johnson Controls	

Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net Sales</b>	3,386	4,471	6,068	7,038	8,012
COGS	2,116	2,763	3,738	4,348	4,963
Employee Expenses	451	587	790	895	997
Other Expenses	445	587	792	897	1,002
<b>EBITDA</b>	374	534	749	897	1,051
D&A	136	165	215	260	282
Other income	14	33	21	26	29
<b>EBIT</b>	252	402	555	664	798
Interest Expense	40	35	51	59	67
<b>PBT</b>	212	367	504	604	731
Exceptional Items	0	38	0	0	0
PBT (Including exceptional items)	212	405	504	604	731
Tax	46	98	146	175	212
<b>PAT</b>	165	308	358	429	519
Add:- Share of profit of associates and joint ventures	20	23	15	18	22
<b>Total Profit After Share of Profit of Associates and Joint Ventures</b>	185	331	373	447	541
Adj. EPS in INR	6.2	11.7	13.2	15.8	19.2

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	16	17	53	53	53
Net Worth	<b>1,176</b>	<b>1,603</b>	<b>1,919</b>	<b>2,290</b>	<b>2,723</b>
Long Term Borrowings	177	240	348	400	448
Other Financial Liabilities	54	51	70	81	92
Long Term Provisions	59	104	141	163	186
<b>Total Non Current Liabilities</b>	<b>290</b>	<b>395</b>	<b>559</b>	<b>645</b>	<b>727</b>
Short Term Borrowings	261	303	454	545	627
Trade Payables	486	798	1,085	1,275	1,469
Other Financial Liabilities	120	155	219	256	291
Other Current Liabilities	48	92	114	126	152
Short Term Provisions	9	15	20	23	27
Current tax liabilities (net)	7	4	5	6	7
<b>Total Current Liabilities</b>	<b>931</b>	<b>1,367</b>	<b>1,897</b>	<b>2,230</b>	<b>2,572</b>
<b>Total Equity and Liabilities</b>	<b>2,398</b>	<b>3,365</b>	<b>4,375</b>	<b>5,165</b>	<b>6,022</b>

Fixed and Intangible Assets	1,002	1,561	1,805	1,979	1,939
Long Term Financial Assets	129	187	260	310	362
Deferred tax assets (net)	30	19	0	0	0
Other tax assets	15	31	39	46	56
Other non-current assets	20	40	55	64	72
<b>Total Non-Current Assets</b>	<b>1,196</b>	<b>1,838</b>	<b>2,159</b>	<b>2,400</b>	<b>2,429</b>
Inventories	238	418	553	631	707
Short Term Financial assets					
Trade receivables	500	790	1,072	1,243	1,415
Cash and cash equivalents	358	126	340	605	1,149
Bank balances other than those included under cash and cash equivalents	16	34	34	34	34
Loans	1	2	2	3	3
Other current financial assets	8	18	24	28	32
Other current assets	82	141	191	222	252
<b>Total Current Assets</b>	<b>1,202</b>	<b>1,527</b>	<b>2,216</b>	<b>2,765</b>	<b>3,593</b>
<b>Total Assets</b>	<b>2,398</b>	<b>3,365</b>	<b>4,375</b>	<b>5,165</b>	<b>6,022</b>

Source: NSPL Research

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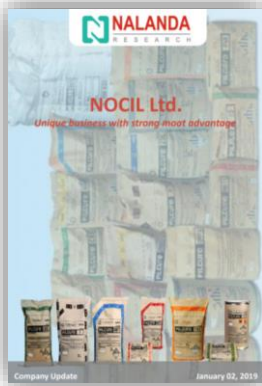


Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
PBT	212	405	504	604	731
Operating Profit before Working Capital Changes	382	550	746	892	1,044
Cash Generated from Operations	390	447	685	872	1,044
Less: income tax paid	-56	-85	-146	-175	-212
<b>Cash Flow from Operating</b>	<b>334</b>	<b>362</b>	<b>539</b>	<b>697</b>	<b>832</b>
(Incr)/ Decr in Gross PP&E	-254	-517	-450	-400	-200
<b>Cash Flow from Investing</b>	<b>-271</b>	<b>-641</b>	<b>-512</b>	<b>-439</b>	<b>-242</b>
(Decr)/Incr in Debt	-3	84	259	143	130
Finance costs	-39	-35	-51	-59	-67
<b>Cash Flow from Financing</b>	<b>253</b>	<b>46</b>	<b>188</b>	<b>8</b>	<b>-46</b>
Incr/(Decr) in Balance Sheet Cash	320	-232	215	265	545
Cash at the Start of the Year	38	358	125	340	605
<b>Cash at the End of the Year</b>	<b>358</b>	<b>125</b>	<b>340</b>	<b>605</b>	<b>1,149</b>

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability:</b>					
Return on Capital (%)	15.0%	18.2%	19.7%	19.8%	20.3%
Return on Equity (%)	15.7%	20.6%	19.4%	19.5%	19.9%
<b>Margin Trend:</b>					
EBITDA Margin (%)	11.0%	11.9%	12.3%	12.7%	13.1%
Net profit Margin (%)	5.5%	7.4%	6.1%	6.4%	6.7%
<b>Solvency:</b>					
Total Debt / Equity	0.4	0.4	0.5	0.5	0.4
<b>Valuation Ratios:</b>					
P/E	15.6	25.2	24.8	20.7	17.1
EV/EBITDA	6.6	13.8	10.9	9.2	8.2
P/B	2.2	4.9	4.5	3.8	3.2

Source: NSPL Research

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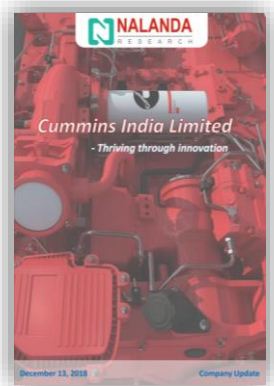
**NOCIL Ltd.**



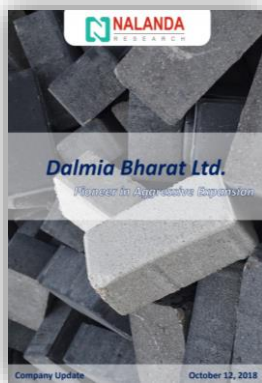
**JK Cement Ltd.**



**Suprajit Engineering Ltd.**



**Cummins India Ltd.**



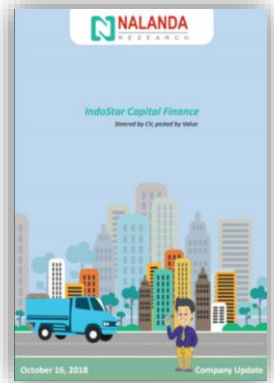
**Dalmia Bharat**



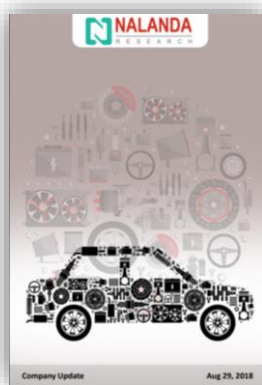
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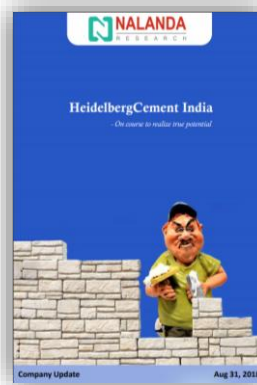
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Date	Minda Industries			Rating Legend	
	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
February 20, 2019	328	359	Buy	Buy	5% - 15%
February 07, 2019	290	359	Strong Buy	Hold	0 – 5%
November 06, 2018	340	474	Strong Buy	Reduce	-5% - 0
August 29, 2018 (Company Update)	424	521	Strong Buy	Sell	Less than -5%

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