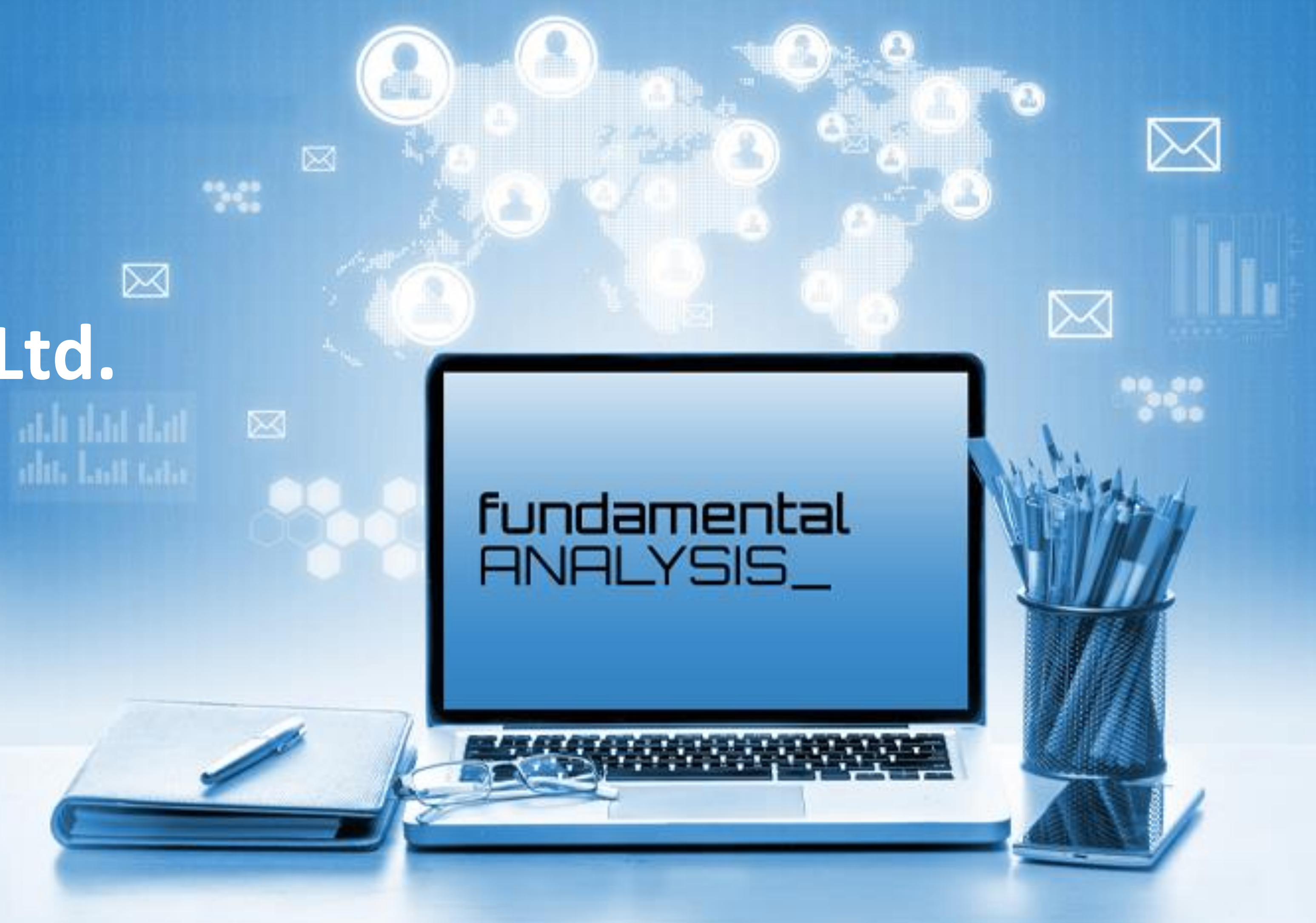
Stock Note

Munjal Auto Industries Ltd.

Jan 15, 2024



RETAILRESEARCH

Munjal Auto Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 105	Buy in Rs 104-106 band & add on dips in Rs 91-93 band	Rs 116	Rs 125	2-3 quarters

HDFC Scrip Code	MUNAUTEQNR
BSE Code	520059
NSE Code	MUNJALAU
Bloomberg	GCY IN
CMP Jan 12, 2024	105.0
Equity Capital (Rs cr)	20.0
Face Value (Rs)	2
Equity Share O/S (cr)	10.0
Market Cap (Rs cr)	1050
Book Value (Rs)	38.8
Avg. 52 Wk Volumes	457,300
52 Week High (Rs)	108.8
52 Week Low (Rs)	35.6

Share holding Pattern % (Sep, 2023)	
Promoters	74.8
Institutions	0.0
Non Institutions	25.2
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

Munjal Auto Industries Ltd. (MAIL) is a leading auto component manufacturing company in India producing exhaust systems (or mufflers), spoke rims, steel wheel rims, PV fuel tanks, BIW parts and other automotive assemblies. At present, the company has an installed annual manufacturing capacity of around 94.5 lakh mufflers, 12.5 lakh rims, 15 lakh scooter wheels and 2 lakh fuel tanks. The manufacturing units of the company are at Vadodara (Gujarat), Bawal (Haryana), Dharuhera (Haryana) and Haridwar (Uttarakhand). At present, MAIL is the sole supplier for HMCL's muffler requirement across all 2W segments, except 100 cc motorcycles where it has sizeable share of business (SoB), as one out of two preferred vendors.

In Q1 FY2019, MAIL acquired ~68% stake in Indutch Composites Technology Pvt. Ltd (ICTPL) for a total consideration of ~Rs 30cr and became its holding company. ICTPL manufactures composite products that find applications in sectors such as wind energy, railways, marine, industrial, and aerospace.

MAIL will continue to benefit from its extensive track record of operations, established relationship with HMCL and commitment to conservative financial policies. Ramp up in ICTPL's performance would further lend stability to the overall consolidated operations. MAIL on Q3FY23 and Q4FY23 suffered on a consolidated basis as its subsidiary faced pressure on margins. But in FY24, it has come out of it.

Valuation & Recommendation:

We expect MAIL's standalone sales to track the sales growth of HMCL and margins to gradually improve. The subsidiary's operations could keep improving based on its product profile and higher orders from existing customers though funding requirement may rise to cater to that. The sales from the composite products could insulate it from the cyclical nature of motor cycles and lead to gradual rerating of the stock.

We expect MAIL's Revenue/PAT to grow at 10/65% CAGR over FY23-FY26E. We believe investors can buy the stock in Rs 104-106 band and add on dips in Rs 91-93 band (9.5x FY26E EPS) for a base case fair value of Rs 116 (12x FY26E EPS) and bull case fair value of Rs 125 (13x FY26E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Operating Income	545	544	0.2	509	7.1	1,984	2,143	2,368	2,640
EBITDA	36	26	39.5	25	46.9	90	124	148	180
APAT	14	8	78.9	10	39.7	22	48	70	96
Diluted EPS (Rs)	1.4	0.8	78.9	1.0	39.7	2.2	4.8	7.0	9.6
RoE (%)						6.0	12.0	15.7	19.2
P/E (x)						48.7	21.9	15.1	10.9
EV/EBITDA (x)						11.4	7.6	5.8	4.3

(Source: Company, HDFC sec)

Q2FY24 Result Review

- Net sales of the company remained flat at Rs 545cr due to slowdown in HMCL volumes growth and lower realisation on account of correction in material prices. Composite products revenue increased 48% YoY to Rs 147cr while auto components revenue witnessed degrowth of 11% to Rs 397cr.
- EBITDA increased by 39% YoY to Rs 36cr as margins expanded by 187bps to 6.6%. Auto components/Composite products segment reported 130bps/610bps YOY expansion in EBIT margin to 4.5%/7.6% respectively.
- Adj. net profit grew 79% YoY to Rs 14cr and PAT margin expanded 111bps to 2.5%

Key Triggers

Key supplier status in mufflers for HMCL

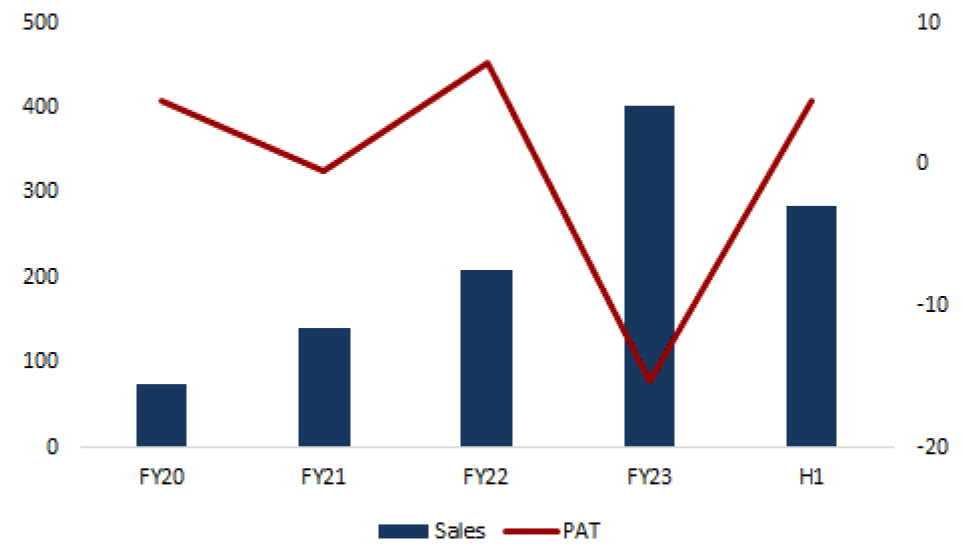
MAIL is the largest supplier of mufflers to HMCL, which is the leader in the Indian 2W industry. The company's experience and expertise in manufacturing mufflers, along with its established relationship with HMCL, are likely to help it to maintain a majority share of business with the OEM. MAIL has technical collaborations with Lafranconi Italy SPA for exhaust systems of 2Ws and with South Korea's Samsung Industries Ltd. for fuel tanks of passenger vehicles (PVs). Such technical collaborations have helped MAIL not only maintain a healthy share of business with its customers but also gain access to the latest technology to meet the changing industry requirements.

Strong growth in subsidiary company

In FY19 MAIL took majority stake in Indutch Composites Technology Private Limited (ICTPL). The purpose of this acquisition was twofold, first, to diversify the risks in the present business. Second, to enter an area of huge market potential. India is just starting to realize the benefits of the use of composites as a material and in the coming years, its use across sectors will increase. Today the company is the leader in the country for windmill blades and tools. In the past four years the company has grown four folds to touch a turnover of over Rs 400cr. There is huge potential for growth in this business.

Composite materials having better strength to weight ratio are one of the finest options for planning, designing and manufacturing of the lightweight components. In automobile sector, employment of composite materials would reduce the weight of electric vehicles as well as influence their aerodynamic properties. Therefore, it would decrease the consumption of fuel as well by cutting down harmful emissions and particulate matter.

Improving sales and profitability of subsidiary (Rs cr)



(Source: Company, HDFC sec)

Expansion plans of Hero Motocorp could benefit MAIL

Despite being one of India's largest motorcycle manufacturers, Hero MotoCorp has focused predominantly on the economy and utility segments. HMCL is now taking steps to develop a stronger presence in the premium range. It is collaborating with credible partners in the UK, Spain, and France to start commercial operations in each of these markets by mid-2024. It plans to introduce its electric scooter VIDA V1 in these countries and then expand offerings with high-capacity premium ICE motorcycles and scooters. This could result in higher orders for the company.

Steady revenue visibility over the medium term and healthy order book at the subsidiary level as well

Owing to a strong share of business with HMCL, MAIL witnessed 9% volume growth in mufflers in FY23, though it could not translate into revenue growth amid a significant decline in the pricing of mufflers. The realisation decline did not have any material impact on the company's profitability as the raw material price fluctuations are passed to HMCL. Going forward, muffler volumes are expected to grow in line with 2W industry volumes in the near to medium term. Moreover, MAIL's subsidiary, ICTPL, has a healthy order book of ~Rs 660cr for FY24, resulting from medium-to-long-term offtake agreements with its key clients such as Nordex, Enercon and Senvion India that lend healthy medium-term revenue visibility. HMCL has reported growth of 4% in sales volumes in FY24YTD. This will benefit MAIL.

Risks & Concerns

Slowdown in 2W industry

A prolonged slowdown in automotive volumes especially in 2W segment in future may hinder company's overall performance. Company derives over 90% of revenues from HMCL which is the leading 2W manufacturer in India. However with a significant stake in composite manufacturing subsidiary, the risk of over dependence on automobile industry has reduced to some extent.

Electrification in motorcycles

The share of EV scooters is increasing. Any similar pickup in motorcycles could render the company's main product obsolete and hinder its profitability.

Concentration risk

MAIL derives over 90% of its revenues from 1 client i.e. HMCL which exposes the company to the risk of losing the client.

Raw material volatility

Since majority of the sales are to HMCL, the company has lower pricing power and cannot easily pass on the increased raw material costs.

Subsidiary faces margin fluctuations

Its subsidiary Indutch Tech faces volatility in order flows and raw material costs which cannot be easily passed over. Further employee costs and tooling costs can impact margins from time to time. However, the situation improved in FY24.

Company Background:

Munjal Auto Industries Limited (MAIL) is a leading auto component manufacturing company in India producing exhaust systems (or mufflers), spoke rims, steel wheel rims, PV fuel tanks, BIW parts and other automotive assemblies. MAIL has technical collaboration with Lafranconi Italy for exhaust systems of the 2W industry. The company holds the pride of being among the largest manufacturer of the Exhaust Systems in the world, manufacturing close to 32,000 systems per day. In addition, the company has a technical collaboration with Samsung Industries Ltd. of South Korea for fuel tanks of PVs. At present, the company has an installed annual manufacturing capacity of around 94.5 lakh mufflers, 12.5 lakh rims, 15 lakh scooter wheels and 2 lakh fuel tanks. The manufacturing units of the company are at Vadodara (Gujarat), Bawal (Haryana), Dharuhera (Haryana) and Haridwar (Uttarakhand). At present, MAIL is the sole supplier for HMCL’s muffler requirement across all 2W segments, except 100 cc motorcycles where it has sizeable share of business (SoB), as one out of two preferred vendors. MAIL is a Hero Group company, with the Satyanand Munjal family holding almost 75% of its equity, and public shareholders the rest. It also has non-Hero customers such as Piaggio and Tata Motors Limited.

Indutch Composites Technology Pvt. Ltd (Subsidiary of MAIL)

In Q1 FY2019, MAIL acquired ~68% stake in Indutch Composites Technology Pvt. Ltd (ICTPL) for a total consideration of ~Rs. 30.0 crore and became its holding company. ICTPL manufactures composite products that find applications in sectors such as wind energy, railways, marine, industrial, and aerospace. At present, the company has four operational units, two in Vadodara city (Halol and Waghodia) and two in Chennai (Mappedu and Vengal). ICTPL has a reputed clientele which includes some of the large global windmill manufactures – Nordex SE, Vestas, LM Windpower, Enercon Gmbh and Senvion.

Financials

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**1916**	**1984**	**2143**	**2368**	**2640**
Growth (%)	***-9.8***	***3.6***	***8.0***	***10.5***	***11.5***
Operating Expenses	1833	1894	2019	2220	2461
EBITDA	**83**	**90**	**124**	**148**	**180**
Growth (%)	***0.3***	***8.7***	***38.2***	***19.1***	***21.3***
EBITDA Margin (%)	***4.3***	***4.5***	***5.8***	***6.3***	***6.8***
Depreciation	36	53	56	52	50
Other Income	5	13	28	28	29
EBIT	**52**	**50**	**96**	**124**	**158**
Interest expenses	12	27	28	25	21
PBT	**41**	**70**	**68**	**99**	**138**
Tax	11	17	17	25	35
PAT	**29**	**53**	**50**	**74**	**103**
Share of Asso./Minority Int.	-3	5	-3	-5	-7
Adj. PAT	**27**	**22**	**48**	**70**	**96**
Growth (%)	***28.7***	***-19.1***	***122.4***	***45.0***	***38.6***
EPS	2.7	2.2	4.8	7.0	9.6

Balance Sheet

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	20	20	20	20	20
Reserves	317	364	398	448	516
Shareholders' Funds	**337**	**384**	**418**	**468**	**536**
Minority Interest	14	10	13	17	24
Total Debt	93	98	103	78	56
Net Deferred Taxes	-3	-2	-2	-2	-2
Other Non-curr. Liab.	33	188	203	224	250
Total Sources of Funds	**474**	**678**	**735**	**785**	**864**
APPLICATION OF FUNDS					
Net Block & Goodwill	263	416	399	382	373
CWIP	4	8	4	3	3
Investments	118	104	174	244	314
Other Non-Curr. Assets	28	32	35	38	43
Total Non Current Assets	**413**	**561**	**612**	**668**	**732**
Inventories	112	208	145	182	219
Debtors	387	437	431	492	554
Cash & Equivalents	7	13	34	20	13
Other Current Assets	39	47	38	49	55
Total Current Assets	**545**	**706**	**648**	**743**	**841**
Creditors	252	312	294	336	384
Other Current Liab & Provisions	231	276	231	290	325
Total Current Liabilities	**483**	**588**	**525**	**627**	**710**
Net Current Assets	62	117	123	117	131
Total Application of Funds	**474**	**678**	**735**	**785**	**864**

Munjal Auto Industries Ltd.

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Cash Flow Statement

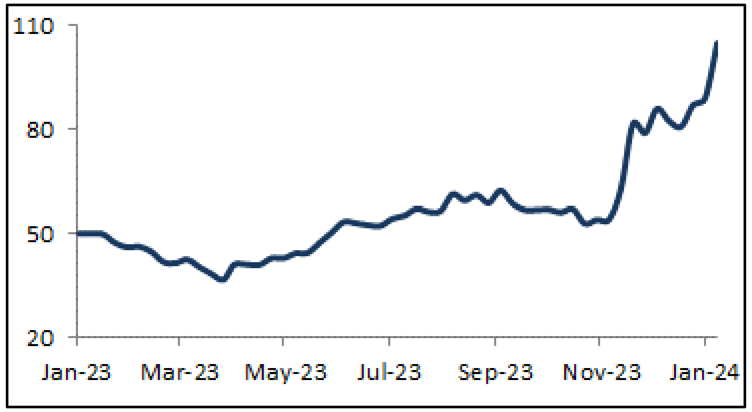
(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	41	70	68	99	138
Non-operating & EO items	-3	-52	12	18	21
Interest Expenses	11	26	28	25	21
Depreciation	36	53	56	52	50
Working Capital Change	59	-45	16	-8	-22
Tax Paid	-7	-19	-17	-25	-35
OPERATING CASH FLOW (a)	**137**	**33**	**163**	**161**	**173**
Capex	-9	18	-35	-35	-40
Free Cash Flow	128	52	128	126	133
Investments	-88	18	-70	-70	-70
Non-operating income	-1	0	0	0	0
INVESTING CASH FLOW (b)	**-99**	**37**	**-105**	**-105**	**-110**
Debt Issuance / (Repaid)	-19	5	5	-25	-22
Interest Expenses	-16	-26	-28	-25	-21
FCFE	3	49	35	6	21
Share Capital Issuance	0	0	0	0	0
Dividend	0	-10	-14	-20	-28
Others	-16	-34	0	0	0
FINANCING CASH FLOW (c)	**-35**	**-31**	**-37**	**-70**	**-71**
NET CASH FLOW (a+b+c)	**3**	**39**	**21**	**-14**	**-7**

Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	4.3	4.5	5.8	6.3	6.8
EBIT Margin	2.7	2.5	4.5	5.2	6.0
APAT Margin	1.4	1.1	2.2	2.9	3.7
RoE	8.2	6.0	12.0	15.7	19.2
RoCE	12.3	10.9	19.1	23.3	27.8
Solvency Ratio (x)					
Net Debt/EBITDA	1.0	0.9	0.6	0.4	0.2
Net D/E	0.3	0.2	0.2	0.1	0.1
PER SHARE DATA (Rs)					
EPS	2.7	2.2	4.8	7.0	9.6
CEPS	6.2	7.5	10.4	12.2	14.7
BV	33.7	38.4	41.8	46.8	53.6
Dividend	1.0	2.0	1.4	2.0	2.8
Turnover Ratios (days)					
Debtor days	73	76	74	71	72
Inventory days	19	29	30	25	28
Creditors days	49	52	52	49	50
VALUATION (x)					
P/E	39.4	48.7	21.9	15.1	10.9
P/BV	3.1	2.7	2.5	2.2	2.0
EV/EBITDA	12.3	11.4	7.6	5.8	4.3
EV / Revenues	0.5	0.5	0.4	0.4	0.3
Dividend Yield (%)	1.0	1.9	1.3	1.9	2.7
Dividend Payout (%)	37.5	92.7	29.2	28.7	29.0

(Source: Company, HDFC sec)

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

ATUL JAGDISH KARWA

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