



“Minda Industries Limited Q2 FY-16 Earnings
Conference Call”

November 5, 2015



**MANAGEMENT: MR. SUDHIR JAIN – EXECUTIVE DIRECTOR AND
GROUP CHIEF FINANCIAL OFFICER, MINDA
INDUSTRIES LIMITED
MR. TRIPURARI KUMAR – DGM-STRATEGY &
FINANCE, MINDA INDUSTRIES LIMITED
MR. RAJESH SEHGAL – STRATEGY & FINANCE, MINDA
INDUSTRIES LIMITED
MR. H S RANA – MINDA INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Minda Industries Limited Q2 FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performances and involve risks, and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sudhir Jain – Executive Director and Group CFO for Minda Industries. Thank you and over to you, sir.

Sudhir Jain: I welcome all of you to this conference call it's our pleasure that all of you are here to participate in this conference. Along with me, I have my colleagues Rajesh, Tripurari and Rana who are with us. I hope you have had a look at our presentation that has also been uploaded on our website and website of stock exchange. I would request Tripurari to take all of us through the results and the status of the auto industry.

Tripurari Kumar: I will briefly speak on the industry and then give the update on our performance in this quarter and we will happy to take your queries then.

I will begin with auto industry. As you all know the July-September quarter has been mostly in line with the GDP growth. Overall, the auto industry has shown marginal growth over year-on-year in Q2 as well as in H1. This has been derived by the volume growth in M&HCV and passenger cars. However, the growth has been significantly offset by drop in two-wheeler and three-wheeler volumes. During H1 in FY 2016, passenger cars have grown by 6.3% year-on-year in Q2 FY16. Which has been driven by new launches across OEMs and the festivities, which continue now.

Commercial vehicles also have increased around 10% year-on-year mainly on account of medium and heavy commercial vehicle segment. LCV volumes continue to show a tepid response. Two-wheeler segment declined marginally on account of lower volumes in motorcycles. The positive note is that the motorcycle volumes are keeping pace with the higher base created last year. So the scooter continues to be the sweet spot for the OEM industries in H1 Financial Year 2016. Scooter sales witnessed double-digit growth of around 11%.

Export markets maintained positive momentum with strong performance in commercial vehicle, three-wheeler and scooters. The industry has such seasonality to it where H2 is always better than the first half. Primarily owing to festivals, which are on this part of the year. As October number are already out, we see that the passenger growth persists with new launches in the market and lower base effect in the month of October. While for the two-wheeler

segment, festive season has brought in some revival. The growth in medium and heavy commercial vehicles continues despite pre-buying in Q2.

With the festival demand and the reduction in cost of ownership we expect improved demand in two-wheeler and passenger car been upcoming quarter with improvement in light commercial vehicles. Industry has also witnessed increase in the minimum wages in several parts of the country, which are likely to generally affect the cost structure in general.

Now coming to our quarterly performance. In Q2 FY 2016 at a consolidated level, the company registered Rs. 652 crores of revenue, recording a growth of 19% year-on-year primarily driven by volumes across product lines. EBITDA was around Rs. 63 crores, a growth of around 72% year-on-year and margin has expanded by almost 300 bps to almost 9.7%. This quarter we have been able to inch up closer to our target of 10% EBITDA margin.

We are putting all efforts and including the current margin level as well. PBT before exceptional items was recorded at Rs. 35 crores, showing a growth of around 136% year-on-year. PAT after minority interest was at Rs. 26 crores. If you compare it with Q2 2015, the adjusted number for Q2 FY15 PAT numbers for exceptional items pertaining to battery hive-off division and write back in last quarter of last financial year corresponding quarter. Post at the exceptional items grew from 110% from Rs. 12 crores in Q2 2015 to Rs. 26 crores recording a 110% growth in this number.

Coming to our six months' performance in H1 2016 at a consolidated level the company registered Rs. 1,184 crores of revenue a growth of around 14% year-on-year. EBITDA was around Rs. 97 crores growing by 30% year-on-year. EBITDA margin has expanded by almost 100 bps to 8.2%.

PBT before exceptional item was at Rs. 51 crores showing a growth of around 76% year-on-year. PAT after minority interest has been recorded at Rs. 40 crores. PAT after MI adjusted for post-tax exceptional items grew by 54% from Rs. 26 crores in Q2 2015 to Rs. 40 crores in Q2 FY 2016. This growth has been driven by all product lines performance in line with our expectations.

Coming to the various product lines we will just briefly touching upon the key product lines in the conference call. I will start with switches. Switches contribute roughly 46% to the total consolidated turnover and India constituted for more 95% with EBITDA margin of 13.6%.

The lighting division contributes around 18% of the total turnover with an EBITDA margin of 9%. And India accounting for similar 95% of the overall sales.

Acoustic division or horns division contributes around 17% in Q1 FY16 with EBITDA margin of 16% and India volumes accounting for roughly 34%. We have received new orders from

Renault from the Brazilian market. We have also received new orders from Maruti Suzuki and Tata Motors which is serviced from the Indian operations.

Regarding Clarton Horn business, we have recorded Rs. 155 crores in revenues with a healthy EBITDA margin of around 5%. The company is in process of building Greenfield facility in Mexico for Clarton horn as order visibility for this market. The facility will be operational by April 2016 and approximately €6 million will be invested over next three years.

Our subsidiary, PT Minda Asean has also received new orders from Suzuki for four-wheeler automotive lines for the Asean market. The other product lines have also been started contributing, albeit in small but positive number to financial performance of the company. As shared with you all few of our subsidiaries have shown clear kind of turnaround and Minda Kyoraku which was not profit making last year has successfully turnaround.

MJ Casting, which is our subsidiary for die-casting has entered in to new contracts with customers like Wabco, which gives better visibility for revenue in the next year.

Our JV with Kosei for alloy wheel that is Minda Kosei Alloy Wheel Private Limited has achieved financial closure in the last quarter and has also made their first shipment from this JV in the month of October 2015.

This is from our side. And we would now like to open the floor for question and answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Mahesh Bendre from Way to Wealth. Please proceed.

Mahesh Bendre: Sir, in this quarter we have grown by 19% and our margins have shot up to 9.7%. So how sustainable these margins are and what you attribute to this margin expansion? Is it a scale, that is, operating leverage benefit or is it a commodity price correction that has helped us?

Sudhir Jain: There are number of factors, which has contributed to this kind of topline growth and EBITDA margin improvement. In case you will recollect, since last 2-3 calls, I have been informing that we, in Minda, have invested considerable amount in expanding our capacities in the existing product lines. That is switches, lights, horns etc. So, for switches - new plant was set up in Hosur, for light- expansion was made in Manesar as well as in Pune, for alloy die casting - second plant was set up in Hosur, similarly for blow molding, which is in MKL - setup additional plant, new plant in Bawal and further paint shop was set up in this plant.

So first and foremost reason, is that a lot of efficiencies of operating efficiencies and improvement in case of our new capacity which were created. As a result of that improvement

bottom-line has improved. Second, of course, is the better capacity utilization, which has given us better topline. These are the two main factors. And you are right, lot of corrections in the basic commodity prices has also have does to maintain or reduce our RMC levels. And that has also contributed a lot in this process.

And further you will recollect, that we were having manufacturing plants in Indonesia as well as in Vietnam for manufacturing switches, lights and in a small way horns. So those companies have also been brought under MIL. Effective Q2, they are become the subsidiary of MIL as a result their sales proportionately as well as the bottom-line has been consolidated with MIL accounts. So these are precisely the reasons.

The important question whether these are sustainable. Historically in case you will see as far as topline is concerned we are growing at the rate of 20% CAGR in last 10 years. The industry growth on an average I will tell you is 9% to 10%. And considering the past performance the kind of capacities we have, the kind of engineering, R&D facilities in house which we have, we hope to continue to grow at a rate of 20% topline, if not more.

EBITDA level, you will recollect, may be the last year's same time over three quarters ago I shared with you that the top management focus is first on improving the bottom line and we are targeting internally to achieve double digit EBITDA. So this quarter we could not cross 10% but still we are working to cross 10% EBITDA level and let us hope for the best.

Mahesh Bendre: Sir, essentially we were talking about a 20% growth from next year and double digit margin; is it right way to interpret what you said?

Sudhir Jain: Yes, that is what we are internally working that is the target to the internal team. And considering the past record 20% topline growth we have achieved in the past, even more than that CAGR and bottom line, I think, the EBITDA 10% should be the target and should be achievable.

Mahesh Bendre: And sir, in terms of debt we have around Rs. 220 crores of debt on the balance sheet. So on a going forward, what kind of debt repayment or addition you expect?

Sudhir Jain: Firstly, I think looking at a consolidated level, our debt is less than 0.75 and this is even after considering some of the debt, which we have taken for alloy wheel projects, which we are setting up at Bawal under Minda Kosei and equity been held by Minda Industries Limited. So even after that, debt-to-equity level is 0.75% or slightly less than that.

As far as the repayments are concerned, after considering the repayments definitely the internal policy of the group is not to exceed 1:1 but that is the policy. But in the past consistently we are able to keep our debt level at around 0.8- 0.75%. Exact numbers in case you are interested I

would request Rajesh who with us to give you the numbers of overall annual repayment broadly what is the debt.

Rajesh Rustagi: Yes, annual repayment is in the range of Rs. 40 crores to Rs. 45 crores per annum. So in the next three, four years we will repay all the existing term loans.

Mahesh Bendre: And sir, last question. In first half we have reported a profit of Rs. 40 crores but our reserves and surplus have gone up by Rs. 66 crores. So why this difference if you could reconcile those?

Rajesh Sehgal: Actually, this is mainly on account of we acquired MJ Casting, so there is our share in the reserve has increased. Earlier in Q1, MJ Casting was our JV; now it has become subsidiary. So that is why.

Sudhir Jain: So, MJ Casting, which manufactures then supply to HMSI, TVS and now Wabco, Aluminium die-casting parts. Minda Industries Limited was owning 50% equity of that company which is an existing company since past now three years. During this quarter, Minda Industries has acquired additional 48% equity of this company as a part of our consolidation exercise. So today 98% of that equity is held by Minda Industries as a result of increase of this equity.

Rajesh Sehgal: And there are two moving equities were acquired in this financial year is SAM Global and our two Asean entities. So surplus of this in to introduced get added and parallely, MJ Casting loss got added. So that is why the reserve and surplus is not matching with our PAT accrued.

Sudhir Jain: I think very interesting and intelligent question. So, it is mainly because increased equity of MIL in MJCL, PTMA which is in Indonesia and Vietnam company all three were existing companies so there the equity has increased MIL holding has increased. So proportionately more reserves become part of our MIL consolidation.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Sushil Finance. Please proceed.

Saurabh Jain: My first question is, you have been mentioning over the last few con calls, that we will be targeting a double digit EBITDA margin. Now that we have almost achieved that, yesterday during a media interaction, you had mentioned that there is further scope of improvement from current levels. So could you please guide us on what kind of improvement can we see, by next year?

Sudhir Jain: Saurabh, first, thanks for all support. We are targeting double digit 10%. This quarter we could not cross 10%, so our internal target, first is to achieve 10% EBITDA margins. Yes, there is a further scope for improvement through better operational efficiencies and capacity utilization and consolidation. And on all three activities, we are continuously working. Now exactly how



*Minda Industries Limited
November 5, 2015*

much we hope to achieve in terms of say next H2 or the next year, maybe I think it would be better to wait for one more quarter, and we would be able to share some specifics next time.

Saurabh Jain: Also during that interview, you had mentioned that contribution from other geographies is expected to increase from 12% to 20% by next year. So that is quite a big leap. So if you can highlight what geographies, which products will drive this growth?

Sudhir Jain: No, you are right. But I think I said, we are targeting internally that from our international operations including exports, the Group turnover 20% of the Group turnover should come from global operation. Next year, I doubt, I said because it may take some more time. But in case I have said so, then I apologize because we may not achieve it in the next year. Having said that, I think within two or three years we should reach and that is what is our target and even that 20% of the Group turnover should come from international operations. This growth is basically will come from Indonesia, Vietnam, Clarton operation. Clarton is also expanding, as Tripurari just mentioned, that Mexico plant will become operational so more sales will come from Mexico also. And for all these three locations we are working on how to increase the turnover at these three locations. Over and above the exports, which we are doing from India. So 2-3 years, I think, should be a more realistic target to achieve 20% turnover from global operations.

Saurabh Jain: Sir, and if you can talk a bit more about restructuring, how it is going; have you crystallized any businesses that would be consolidated with the listed entity? What would be the timeline for this restructuring? Any latest updates after the last quarter.

Sudhir Jain: In January, February 2015, we decided to consolidate the Group under Minda Industries Limited being a listed entity and the flagship company. And at that time the total Group turnover about one third was in Minda Industries Limited standalone. Some of the companies were already held by Minda Industries at that time, so put together consolidation about 55% of the Group turnover. Something, which was easier to do which is acquisition of 50% to 98% in MJCL, 51% PTMA and Vietnam, which we have completed in Q2. For rest of the companies and holding, we have made certain drafts internally and we are in discussion with KPMG. I think last time also I shared we have retained KPMG for consolidation of rest of the entities. So their involvement of the Companies Act, FEMA rules, etc., from all legal angle we are in discussion with KPMG. Our internal target is to freeze the plan by December end. So, by December end we should internally freeze it, and then we will roll out the implementation of the same. And whether we will do implementation in one go or maybe in two, that we have yet to decide. So next time when we meet somewhere in the first week of February, I think we would be in a position to share some specifics about this consolidation. That year's activity is on, work is in progress, decisions have been taken and we will consolidate under MIL.

Saurabh Jain: And one last thing from my side as of now. Any plans for future cash flows? As we have already started generating, robust operating cash flows and we do not have any substantial CAPEX plans for next year as well. So do you have any plans in place like acquisition or debt repayment, anything on that front?

Sudhir Jain: One, of course yes, you are right, debt repayment, retiring of our liabilities would be the first priority. Then some cash would also be required in this consolidation exercise. thirdly are we looking at any acquisition. In case there is any really good opportunity, which synergize with our existing products. We are not thinking of now adding new products at least in the near future. But we are concentrating on consolidating our Group in the existing products within India as well as outside India. So in case if there is any good opportunity definitely we will look at that.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please proceed.

Ashutosh Tiwari: Sir, the first question is that if I look at the standalone revenue growth, revenue grew by almost like 9% while your main segment is two-wheelers, we have not seen any growth in that segment. So what has driven this growth and if you can provide the segment wise growth like switches, lighting and others?

Sudhir Jain: In case you will see this industry growth automotive industry growth in H1 the passenger vehicle has grown by 7%. Commercial vehicle by 8%. Two-wheeler growth is almost steady I mean there is no growth in two-wheeler. So considering this, yes you are right that standalone topline growth is 9% while at a consolidated level we have grown 19%. But having said that, share of business with our various OEMs is increasing quarter-by-quarter and particularly with HMSI. So with HMSI, we are increasing our share of business. Lighting, horns and others are concerned, because new capacities have been created in last two years, particularly in Aluminium die casting as well as in blow molding, so there is a decent growth in that also and better profitability.

Ashutosh Tiwari: So how much growth we saw in switches, standalone switches YOY?

Management: One minute, maybe Rajesh, I would request Rajesh to product wise you can say H1 or Q2?

Ashutosh Tiwari: Q2.

Rajesh Sehgal: In switches, it is 10%, light 8%, acoustics 20%, and then hardly 5% to 7% from other businesses. This is for standalone.

Ashutosh Tiwari: So your margins are highest in horns, right?

- Rajesh Sehgal:** Horns and switches.
- Ashutosh Tiwari:** So that is what has driven your growth. I mean this switches growth is driven mainly by HMSI you are gaining market share in case of HMSI is that the case?
- Rajesh Sehgal:** That is also the case. We keep on adding new products with features. So in the last quarter we have even started supplies of Moto Guzzi business. So some exports have also begun from this quarter. So that has also has some incremental EBITDA margin there.
- Ashutosh Tiwari:** And your subsidiary Minda Kyoraku I mean this is did almost like 40% of sales in the first half. Who are the key customers and what kind of growth we expect in terms of annual turnover and then next year growth?
- Rajesh Sehgal:** MSIL is the key customer there, and we hope to do a similar business in the Q3 and the margins are likely to expand further.
- Ashutosh Tiwari:** And are we supplying for some particular models over there and if that is the case, which are those models?
- Sudhir Jain:** First MKL is in to blow-molding parts and here we mentioned the key customers is Maruti Suzuki number one. Second of course Honda and Toyota. So these are the three main customers. And next you said, models. I think model wise really we can inform you. May be we are not ready with model wise. But mainly it is a new Alto, Wagon R, Swift for MSIL.
- Ashutosh Tiwari:** And MJ Casting also did well their losses were down on a YoY basis. You expect it to have a turnaround in the second half in terms of profitability?
- Rajesh Sehgal:** Yes, we can say that. Because the turnover is mainly because of optimal utilization of available capacity and internal efficiencies.
- Ashutosh Tiwari:** And you have also added Wabco over there some order you got from Wabco?
- Rajesh Sehgal:** Initially only, HMSI was there as a customer now Wabco and TVS. The new customers have been added and diversification of business line is also there in terms of supplies to customers.
- Ashutosh Tiwari:** So how much of it we can do in the current year from that at MJ Casting?
- Rajesh Sehgal:** It will be very close around Rs. (+200) crores.
- Ashutosh Tiwari:** In the current year itself?
- Rajesh Sehgal:** Yes.

- Ashutosh Tiwari:** Because you did have Rs. 82 crores in the first half?
- Rajesh Sehgal:** So Rs. (+200) crores total in this financial year.
- Ashutosh Tiwari:** And probably if it turns around in second half then you can achieve 10% margin guidance that you have?
- Rajesh Sehgal:** Yes.
- Moderator:** Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please proceed.
- Pankaj Bobade:** Just wanted to understand as we had 290 bps improvement in our margins, would this be just one-off or we would be repeating this type of success going forward too? And if yes, what is that gives us confidence that we will be having or reaching this near 10% margins going forward?
- Sudhir Jain:** Firstly, we have already reached 9.7% and which is maintainable. So definitely this percentage is maintainable and we should maintain this figure. In case we are not, then maybe we would be failing somewhere internally. As I already said, our internal target is that it should be in double-digit EBITDA we should be in a position to maintain. In case your question is whether we will improve every time 2.9% or 3%. of course not. But yes, our immediate target is that we should consistently achieve 10% EBITDA margin quarter-on-quarter.
- Pankaj Bobade:** Sir, I just wanted to understand what gives us that confidence and also wanted to understand means this margins which are coming, are they from the core business or due to turnaround of the subsidiaries?
- Sudhir Jain:** This is a combination of both. But yes subsidiaries are playing a key role, because in case you will see the last two year history, we were losing money, losing profit in the subsidiaries. So naturally my consolidated EBITDA was pulled down. So subsidiaries turnaround I think is necessary and to some extent we have achieved it. But yes, from our core business also EBITDA margin has improved, it has substantially improved and particularly Switch. Hosur we set up this facility about two years ago. And Switch Hosur has turned around and as a result EBITDA margin has improved. Consistently we are working to improve the margins in all our existing product lines as well as the new capacities, which we created.
- Pankaj Bobade:** Sir, in addition you have given a guidance of 20% growth over next two to three years?
- Sudhir Jain:** Let me tell you again. I will clarify in the past in last 10 years our topline growth CAGR is 20%. So this 20% growth we are achieving by adding new products as well as by adding capacities to the existing products. In case of existing products also, consistently we are adding

various variants in order to achieve this 20%. So that is why our growth is more than the industry growth. Just to give an example when we see, we supply switches to the OEM, it is not only switches, we supply complete handle bar assembly to the OEM, which contains handle bar, grips, switches, lever holders. Lever holders and switches we make in-house, rest of the components we buy, we assemble and supply. So the value of a handle bar along with switches, etc., is very high. So consistently, we are working on how to add value, how to move up in the supply chain and that is why we have been achieving 20% growth. Based on our past performance we are hopeful that our topline should grow by about 20% year-on-year.

Moderator: Thank you. The next question is from the line of Nisarg Wakharia from Lucky Managers. Please proceed.

Nisarg Wakharia: In the first half our topline has grown by around 15% which means that if we are confident of achieving 20% in the current year, second half we have to do much better of around 24% to 25%, so are you confident on that? That is question number one. And secondly, on the consolidated number, what is the type of tax rate that we can look for 2016 and 2017?

Tripurari Kumar: Like I said, the first quarter of course the growth was around 11%. In the second quarter we are close to 20%. Second half is generally better than the first half and we will have a quarter, which will be similar to the quarter that we have just had, because there are some new entities, which have been added in this quarter. So, we hope that 20% is a number which we should achieve on an overall year-on-year perspective.

Nisarg Wakharia: And sir, what is the tax rate for the current year and for the full year?

Tripurari Kumar: Pardon?

Nisarg Wakharia: Tax rate, your tax rate is around 25% if I see for the first half, so how do you see it for the full year, is it more or less in the same range of around 25%?

Tripurari Kumar: Your voice is cracking, can you just be closer to the phone, I am not getting that number that you are asking for?

Nisarg Wakharia: Sir, your tax rate in the first half is close to around 20% is that the trend that is expected for the full year as well as for FY17?

Tripurari Kumar: It should be in this line because we are generally in the range where it is between MAT and the actual tax rate.

Sudhir Jain: You can safely take 25% effective tax rate of the PBT.

- Nisarg Wakharia:** Sir, one question I believe we have done a tie up with Panasonic for getting into lead acid batteries targeting into automotive segment. Can you provide some update on that?
- Sudhir Jain:** Panasonic project the project is under implementation. Expanded plant and machinery has already arrived at the site, most of the plant and machinery has been installed and trial production is expected to start somewhere December end or January.
- Nisarg Wakharia:** And internally you have any targets as to where do you see this JV in next four, five years because as of now other than two large players except in Amara Raja, most of the players have not been able to make any successful attempt in this market. So what is our strategy, how it is going to be different compared to the earlier players we were not able to make too much of inroads?
- Sudhir Jain:** We are optimistic but yes, Exide and Amara Raja are very big players. But considering our brand and the technology and the kind of response we are getting from the OEMs and aftermarket, we hope to achieve good results, I would not say we would be near to Exide and Amara Raja but our first target in the initial three years to establish the product both in OEM as well as in the aftermarket. And after that three years, of course, then we will have a strategy how to be near to these two players.
- Nisarg Wakharia:** But in 5-6 years, can we aspire to acquire double-digit market share sir?
- Sudhir Jain:** You have I think rightly put it, yes that is our internal target to achieve double-digit market share. Already that is our target.
- Moderator:** Thank you. The next question is from the line of Karan B from India Infoline. Please proceed.
- Karan B:** And sir, my question was regarding the capacity utilization in your switch division, lighting division, and horn division?
- Sudhir Jain:** On an average, we would be operating in all products between 80%-85% capacity utilization. Having said that, we do lot of outsourcing also. When I say outsourcing, basically it is the components which we have procure. So components we outsource and whenever there is a need and the demand increases, partly we add capacity in-house and partly we tell and request our vendors and suppliers who had capacities. But yes, as of now, 80% to 85% is the capacity utilization in most of our plants.
- Karan B:** And sir, you just shared with us the growth in Quarter 2 as in the growth in across the product lines in Quarter 2. So can you tell me the growth across the product lines for H1 FY16?
- Sudhir Jain:** Yes, product wise we will tell you.

- Karan B:** For H1 FY16? Compared to H1 FY15.
- Sudhir Jain:** Switches it is 12% to 13%, light it is 10%, acoustics 15% and rest products fuel cap 50% because during last year this was a new product and other products more or less 5% to 10% growth in other products.
- Moderator:** Thank you. Next question is from the line of Viraj Kacharia from Securities Investment Management. Please proceed.
- Viraj Kacharia:** I just had a one clarification. For the lighting business, do we indigenously produce lamps or we outsource it from someone else?
- Sudhir Jain:** We make the auto lamp assembly. Complete assembly with wiring harness which goes to the OEM and which is fitted in to the vehicle. This assembly uses of course lamp, which is known as bulb or now LEDs. Bulb and LEDs we buy. These are standard bought out products and the supplier is generally nominated by the OEM.
- Viraj Kacharia:** Now sir, just couple of weeks back the transport department came up with a notification that they cannot make auto headlamps in two wheelers mandatory. So how is the technology different, does it require different kind of investment, if you can just provide some color?
- Sudhir Jain:** Can you refer to the last sentence, which you just said because we were not clear what resolution?
- Viraj Kacharia:** What about headlamps in two wheelers. So you have day time running lamps in four wheelers at the moment. So they cannot make it mandatory something similar in two wheelers as well?
- Sudhir Jain:** Yes, I got it. And you are right. Yes, we are working on this also and we keep track of the kind of regulations, which are under consideration of various concerned authorities of which SIAM, ACMA are generally the members. And we are members of ACMA and in our product range, whatever new government is coming and the new regulation is likely to come, is actually jointly decided by the government in consultation with ACMA and SIAM. And for our products, our representatives are also there on those committees.
- Viraj Kacharia:** Sir, what I really want to know that how different is the technology, I mean do you need a different technology for that or in the current settings one can already, so how does it really work if you can provide some color on that?
- Sudhir Jain:** Basically the technology is the same. Basics are the same, the only thing is that its application has to be geared to this two-wheeler vehicle also.

- Viraj Kacharia:** So from a two-wheeler perspective does it require different set of lamps, which you are currently outsourcing or it is the same set of lamps?
- Sudhir Jain:** No, not different set of lamps, lamps will remain the same, but with this additional feature.
- Management:** Like the thickness of the lenses will go down, etc., so those will be added.
- Viraj Kacharia:** And any indication on when the government is I mean because this is a draft notification at the moment, so any indication of when they are going to make it mandatory from?
- Sudhir Jain:** Very difficult to predict because I mean this committee, which are constituted they take various factors into account. They also take into account the readiness of the industry as well as the cost implication and the actual need.
- Viraj Kacharia:** But it does not require any further investment from our side as such?
- Sudhir Jain:** Not substantial investment. Any upgradation in the existing technology or any feature into the existing product generally does not require any substantial investment.
- Moderator:** Thank you. Next question is from the line of Mahesh Bendre from Way2wealth. Please proceed.
- Mahesh Bendre:** Sir, we have two joint ventures, one is with Kosei Group for alloy wheels and secondly with Panasonic for batteries. So what kind of further investments you anticipate in these joint ventures for the next two years? And what is the general capital expenditure plan at a consolidated level?
- Tripurari Kumar:** Regarding joint venture with Panasonic is concerned, as you will be aware, this was a JV in which we had our existing plants, for which we got 40% share. So there was no CAPEX or no cash inflows from our end. Regarding the Minda Kosei facility, it is around Rs. 200 crores CAPEX in which our share is going to be 70% and debt equity net is 60% debt, 40% equity.
- Mahesh Bendre:** And sir, what is general capital expenditure plan for the company at consolidated level?
- Tripurari Kumar:** Consol level it should be in the range of Rs. 40 crores to Rs. 45 crores.
- Mahesh Bendre:** Rs. 40 crores for this year and next year?
- Rajesh Rustagi:** This Rs. 40 crores is excluding alloy wheels because only the replacement CAPEX is at consolidated level is Rs. 40 crores. I think next year this will be Rs. 50 crores maximum.
- Mahesh Bendre:** This Rs. 40 crores is for FY'16?

- Rajesh Rustagi:** Yes.
- Mahesh Bendre:** And for FY'17 any major change in this?
- Sudhir Jain:** In the range of 40, 50 range not more than that. I think you can take Rs. 50 crores, Rs. 55 crores the replacement CAPEX.
- Mahesh Bendre:** So there is no major CAPEX plans for next year at least?
- Sudhir Jain:** Yes.
- Moderator:** Thank you very much. The next question is a follow up question from the line of Nisarg Wakharia of Lucky Managers. Please proceed.
- Nisarg Wakharia:** Sir, just a follow up on this CAPEX thing. We are aspiring to continue to grow at 20% next two three years and the CAPEX is only Rs. 40 crores, Rs. 50 crores. So you have sufficient capacity to be able to sustain 20% growth and when will you need to undertake a major CAPEX going forward in the future?
- Tripurari Kumar:** Like you will appreciate that we have just added a facility of Minda Kosei which is likely to become operational in FY17 which should easily contribute towards a higher of Rs. 200 crores in the topline. Then there are other businesses, which are likely to enhance their capacity utilization by around 5% to 10%. So which will push up the sales by another 20% in the next financial year. We do not see it as a challenge in meeting it with the current expansion facility. Current capacities are high here.
- Nisarg Wakharia:** My second question also what are the key financial parameters that we look at in terms of putting up a major CAPEX either in terms of IRR, payback or return capital employed?
- Tripurari Kumar:** Whatever you have said everything is looked at. ROCE is looked at, IRR is looked at, and payback period is looked at. Generally when we start with a project, we assume that over a period of 3 to 5 years, once the plant is operational the payback should be achieved.
- Nisarg Wakharia:** And on the ROCE sir what is the threshold that we look at?
- Sudhir Jain:** Our internal guidelines are 25% ROCE, from fourth year onwards. First one or two years generally there are loss, and third year is for consolidation, fourth year onward we target that at least 25% return on capital employed we should achieve. Overall payback should be within 7 years. But sometimes it is hard to achieve, in case of a new product or a Greenfield project. In that case, it gets extended by a year or so. Another most important point in this is that wherever we have set up the plants our existing plants, land and building belongs to that plant owned by that company which is Minda Industries. So all land and building are owned by Minda

Industries, as a result the CAPEX is higher and there is a challenge to get the payback in 6 - 7 years' time vis-à-vis in case we take land and building on rent. But still the policy of the Group is that we target to get payback in 7, if not 7 in 8 years' time and ROCE 25% fourth year onward.

Nisarg Wakharia: So this is something that you would target even for your new alloy wheel plant as well as your JV with Panasonic for the batteries similar benchmarks you will be looking at, correct?

Sudhir Jain: Yes.

Nisarg Wakharia: And just one question, you mentioned that the payback sometimes stretches a little because you end up owning your land rather than taking it on lease. Any specific thought on what is the strategy behind doing this, because you said if they were to take it on lease, maybe we can achieve a faster payback. So what are the thoughts behind owning the land?

Sudhir Jain: So far, our experience is that there is a substantial appreciation in the value of land over period of time. So, that gives a natural cushion and hedge towards any downside risk. So overall capital is protected. Going forward, I think, we are evaluating this policy also and whether the kind of price appreciation which has happened in land, in last 10, 20, 30, 40 years will continue is yet to be seen. So we are reviewing it internally but so far it has paid rich dividends that land building belongs to the company and there is substantial appreciation I mean sometimes anywhere between 5 to 10x of the investment.

Nisarg Wakharia: While I agree with you sir, on that end of the day, we are a company which is focused on cash flows and return on capital. So while I agree with you that, this asset value would have gone up it does not translate into a better cash flow or high ROCE for the company. My sense is that land since our cut off is like 25% ROC is going to be achieved on a sustainable basis after that breakeven of two three years. My sense is that on a long-term sustainable basis land will not be able to provide that type of return and especially on the cash flow it will be only appreciation of the value. So we would appreciate that if we were to start looking more aggressively on the lease model and rather invest that capital in operations, which can generate 20-25% return?

Sudhir Jain: I know your point is well taken and very good point you have raised. Internally, we are discussing this particular points since last six months and maybe now you will see on case-by-case we will decide whether a particular land need to be owned by the company or we take it on lease. As I said, past experience was in favor of owning it, because all of our existing land wherever it is located whether it is Bawal, Manesar, Pune, South India, value of the land has been 5 to 10x. But going forward we do not see this kind of growth in the land value also, the way the whole economy is changing for the better. So your point is well taken and case-by-case we will now decide in future.

Nisarg Wakharia: And does this thought process also include looking at possibilities where if the land prices have appreciated substantially to look in terms of may be relocating the facilities to more cheaper or a more to a leased model and rather unlock that value of the land, that would also be one of the options we could look for a few plants in the future?

Sudhir Jain: A very good point. In the past we have done it very selectively. Let me tell you earlier we were having manufacturing units in Delhi Industrial Zone. And for the last 15 years, we have closed down all those units and the production facilities have been shifted to Manesar, Pune from Delhi and one of the guiding force was this only. And again your point is well taken, noted. And on a case-by-case basis continuously we evaluate this aspect also.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to Mr. Jain for closing remarks. Over to you, sir.

Sudhir Jain: Once again thank you very much to all the participants for the encouragement and also the advice that they give time-to-time. And I assure you on behalf of the Minda Group the complete team of Minda, we have geared and committed to improve performance and I am sure with your support, with the support of the market, we will achieve the targets what we set for. For any information for any purpose, etc., you are most welcome to be in touch with SGA who are our Investor Relation Advisors since past now more than three years or to us for any specific information. We also invite any further advice from you, which will help us improve our operations. Thank you.

Moderator: Thank you very much, Mr. Jain. Ladies and gentlemen on behalf of Minda Industries that concludes this conference call. Thank you all for joining us and you may disconnect your lines now.