



## “Minda Industries Limited Q3FY16 Earnings Conference Call”

**February 03, 2016**



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**Moderator:** Ladies and gentlemen, good day and welcome to Minda Industries Limited Q3FY16 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 date of this call. These statements are not the guarantees of future performance and involved risks and uncertainties that are difficult to predict. As a remainder, all participant 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 please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that conference is being recorded. I now hand the conference over to Mr. Sudhir Jain – Executive Director and Group CFO of Minda Industries Limited. Thank you and over to you sir.

**Sudhir Jain:** Good evening colleagues and friends. I welcome all of you to this investor conference and also joined by my colleagues; Rajesh, Tripurari, Rana and Sanjita and her team from SGA who are our IR consultant. I hope you have had a look at our financial results and presentation that has been uploaded on stock exchange as well as company website.

I will briefly speak for the auto industry. During October-December quarter started on a very positive note with the festival season kicking in. Low fuel costs, festival discounts, falling interest rate and fresh model launch, all together seemed to have worked in favor of OEMs as they witnessed a growth in dispatches. Overall auto volumes grew by 2.5%-3% in the quarter October-December. This growth was mainly driven by surge in volumes in passenger vehicles, commercial vehicles, tractor sales and some with of all these scooters and motorcycles. Though the growth in sales was not as expected by us before the beginning of the quarter or before the beginning of the financial year, these numbers are indicative that there is gap between rural demand and urban demand. Passenger vehicle continue to witness strong volume quarter-on-quarter and there is a now 7%-8% growth year-on-year YTD December. This is led by new launches. Strong pipeline built by the OEM will continue to feed the market with new vehicles. Medium and heavy commercial vehicle continued its momentum despite a strong base witnessing a growth of 20% year-on-year during the quarter. LCV segment did show some signs of improvement after 30 months of continuous decline. As we know two wheeler segment grew under pressure with lower rural demand impacting motorcycle volumes. Practically during April to December there is no growth in two wheelers; motorcycles and scooter combined. 7<sup>th</sup> pay commission for government employees has announced a pay hike of about 24% year-on-year while the pay hike is lower than 6<sup>th</sup> pay commission which led to significant increase in auto sale, it is still good enough to boost the sentiment and sale in times to come. January volume data indicated a slow start for the auto industry with major OEMs posting marginal increase in sales. However, OEMs look very upbeat on the launch pipeline. From tomorrow, auto expo would be there is Delhi and all OEMs are expected to launch models in the coming year or so. Aided by improving incomes due to pay commission, strong product line, lower interest cost, auto sales are close to pick up further in the balance 2016. At

such times in the market continues to be under pressure Minda Industries offering a diversified range of product line to diversify set of OEM enable us to be more and more resilient to market scenario. Before we move on to the financial performance we would like to highlight that the Board of Director have approved an declared an interim dividend of 30% on the face value of Rs. 10 and on cumulative redeemable preferential 3% on cumulative preferential share. 30% dividend interim dividend as against 25% of interim dividend declared last year.

Now I come to the quarterly performance of the company. In Q3FY16 at a consolidated level company has registered a turnover of Rs.626 crores which now show 13% year-on-year growth mainly driven by volume growth across product line as well as increase in share of business. EBITDA including other income was at Rs. 67 crores a growth of 51% year-on-year. EBITDA margin has expanded by 268 basis points to 10.6%. This quarter we have been able to cross our target of 10% EBITDA margin. We are putting all of our efforts in sustaining and improving upon the current margin level. PBT before exceptional item was at Rs. 38 crores growing by 118% year-on-year. PAT after minority interest was at Rs. 29 crores a growth of 122% year-on-year with a margin of 4.6%. Coming to our 9 months' performance that is April to December, I would like to highlight that our 9 months' performance has surpassed our full year FY15 performance. In 9 month FY16 at a consolidated level, company has registered Rs. 1,810 crores revenue a growth of 16% year-on-year. EBITDA including other income was at Rs. 173 crores growing by 38% year-on-year. Margin has expanded by almost 154 basis points to 9.6%. PBT before exceptional item was at Rs. 89 crores growing by 82% year-on-year. PAT after minority interest was at Rs. 69 crores, growth of 28% year-on-year. Net profit margin being 3.8%.

Coming to product line – Switches contributed roughly 44% of the total consolidated turnover. India sales accounts for 91% of sales in 9 months FY16. International business has increased with PT Minda Indonesia and SAM Global, Singapore getting consolidated under MIL. This division grew by 8% year-on-year mainly on account of higher volume. EBITDA margin is at 10%. Capacity utilization of this division was 80%-85%.

Now coming to lighting division, lighting division has contributed 18% to our total turnover. This division grew by 13% year-on-year. The India sales accounted for 93% in the first 9 months. This division also witnessed increased international business from PT. Minda, the EBITDA margins are at 8.2%, capacity realization in this division was 80%. We have bagged order for localization of Jaguar, Land Rover variant from Tata Motors.

Coming to acoustic division or horn division, acoustic division has contributed 22% in 9 months, 2016. This division grew by 18% year-on-year. India sales accounted for roughly 35%. The other product lines have also started contributing in smaller but positive manner to the financial performance of the company. During the 9-month period in the current fiscal, Minda Kyoraku and MJ Casting achieved turn around. CAPEX alloy wheel manufacturing

plant is growing as per schedule. With this I will request and will put the floor open for questions. You are most welcome to ask any query and questions related to anything performance, growth, etc., of the company.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Mahesh Bendre from Way2wealth Securities. Please go ahead.

**Mahesh Bendre:** During the quarter, two wheeler industry has not grown at all. Despite that we have been reporting 13% growth. So how we are growing, are we taking our market share from the competitors or are we introducing new products?

**Sudhir Jain:** Mahesh, this is due to combination of 2-3 reasons. As you have said one of the reasons is that yes we have taken share from our competitors also, in the past two years we had built capacity in lighting, in horn and also aluminum die casting and blow molding. So there is better capacity utilization during the quarter vis-à-vis same quarter last year. Secondly during the year, we brought in our Indonesia, Vietnam operation under MIL. Those operations were earlier independent from MIL and during the year they become subsidiary of Minda Industries Limited. So there are additional sales consolidated under MIL. This is the second reason. Thirdly we are also adding products which is a general reason, yes we keep on adding products which contribute to the topline growth. Having said that though the overall auto sector particularly scooters, motorcycles and to some extent passenger vehicles has not grown but within that there is various customers who are growing. Some customers are growing, some customers are not growing and some even reducing. So that depends to which particular customers you are catering to more than the others. Fortunately, we are present in all segments; two wheelers, three wheelers as well as four wheelers and off road segment and we supply to all major customers in India in all the segment.

**Mahesh Bendre:** Sir during the quarter, staff cost has gone up by 34% Y-o-Y and you were on Q-o-Q, it has grown up by 9%. So any specific reason for this?

**Sudhir Jain:** One of the specific reason is the recent amendments under payment of bonus act by the parliament in the month of December which has been considered in the 1<sup>st</sup> week of January, due to that there is an additional provision of about 7 crores due to additional bonus liability for 24 months because this is applicable, this has a retrospective effect. So this is the main reason and otherwise there is normal increment in the current year which generally is 8%-9% every year.

**Mahesh Bendre:** So for next quarter or even going forward, is this a normalized number one should look at?

**Sudhir Jain:** I will say yes. This is a normalized number as far as the personal cost is concerned. Except that because of these 7 crores which is the provision made is includes for accounting year 14-15 also.

**Mahesh Bendre:** Sir we are at the far end of this financial year. What is the outlook for next year, in terms of growth and margins. We have been hitting 9% plus margins for last two quarters. So are we able to touch 10% margin next year and what is the growth outlook in terms of sales?

**Sudhir Jain:** No, as far as the next year is concerned as I said earlier also from medium to long term basis we target 20% growth in the topline year-on-year. But this is medium to long term. What exactly we will achieve in the next year, immediately next year still to be worked out by us. But personally I feel a double digit growth of the top line should definitely happen. As margin is concerned on the basis of 9 months, already the EBITDA is 9.58% and net profit margin is 3.79%. Our target is that the EBITDA should be in double digit in the next financial year and net profit margin, PAT margin should be 4% plus.

**Mahesh Bendre:** Last question from my side. Our battery division and alloy wheels, are there any change in the timeline that regarding those projects getting operational?

**Sudhir Jain:** As far as alloy wheel is concerned, this is as per schedule and we will start trial production in the month of March and we hope to start commercial production in the month of April, latest May. As far as battery is concerned, yes, there is some delay in batteries and still we are targeting that 31<sup>st</sup> March of this financial year battery should also be operational under Panasonic Battery Storage Limited.

**Moderator:** Thank you. Our next question is from the line of Saurabh Jain of Sushil Finance. Please go ahead.

**Saurabh Jain:** I have few questions. My first question is on ASEAN business which I believe includes both Indonesia and Vietnam. The ASEAN business has seen an impressive addition to the topline roughly around 50 crores but the margins have reduced substantially from 22% to sub 15%. So could you please throw some light on the same and how do you see these businesses are shaping up in next 2-4 quarters?

**Sudhir Jain:** Saurabh, thank you very much for the compliment. At the same time this 20% growth in topline, I mean I will make myself further clear, this has remained our target medium to long term. In the past 10 years we are able to achieve 20% topline growth and in the future also our target is to grow at that rate. Having said that quarter-to-quarter or year-to-year it may vary both ways, okay?

**Saurabh Jain:** Yes, sir.

**Sudhir Jain:** Now coming to the ASEAN business, I would ask Rajesh to tell us about the profit margin which has gone down from...



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- Rajesh Rustagi:** Yes, Saurabh. In last quarter there was a dividend income from Minda Vietnam to our Singapore SPV company. So that was account of 4 crores. Our primary share was around 2 crores. So that was one-time income in the Q2.
- Sudhir Jain:** Otherwise from operations our margins are more or less the same.
- Saurabh Jain:** But what could be the quarterly run rate for these businesses on revenue and profits?
- Rajesh Rustagi:** Yes, quarterly turnover is in the range of 30-35 crores and PBT margin is in the double digit.
- Saurabh Jain:** And my next question is on Kosei Minda, like with our interaction on the other industry players on this segment it looks like alloy wheel businesses does not have a pricing power right now and it is a low margin business, that is why, most of these players are not ready to expand their capacities, despite the capacities running at peak utilizations. So how do you see the demand in supply dynamics from your angle going forward?
- Sudhir Jain:** As far as alloy wheel business is concerned. Let me tell you alloy wheel business is evolving in India. Till two years ago mostly vehicles were on-steel wheels and high-end vehicles are generally with alloy wheels. Alloy wheels are lighter, safer also and costly, since they are costly they are generally used in this slightly higher end vehicle. So since last 2-3 years. There is a trend of converting or transferring from steel wheel to alloy wheel. There is a good demand growth about alloy wheels in India. Every OEMs are now looking for good alloy wheel suppliers. Till a year ago, mostly alloy wheel was imported and that too from China, Thailand etc and due to excess capacity in those countries and due to commodity prices going down, there was a lot of dumping also taking place in India and we were also facing some problems of cost and profitability in Kosei Minda. About 9 months ago the government has levied anti-dumping duty on import of alloy wheels as a result of which dumping from these countries have stopped or reduced to a considerable extent. Prices of the products have improved in the Indian market and OEMs are willing to pay higher price based on the actual cost in India. With this price point improvement and stoppage of import from certain countries, there is a good scope of improvement of alloy wheels' business as such in India and I think in times to come in 6 months and 12 months' time we will see now demand also increasing and profit margin also increasing on alloy wheels.
- Saurabh Jain:** And probably for the first time all our subsidiaries except Kosei have turnaround at PBT levels. So now I would be glad if you can show more colors on the scalability like Clarton, Kyoraku, and MJ Casting. They are contributing good numbers to the topline but still just breaking even at the PBT levels. So how do you see things coming up in next few quarters?
- Sudhir Jain:** Your observation is very correct. Now at least we have turned around and these entities are in green but at a very breakeven level or just above breakeven level. Next 18 months we see a substantial improvement in profitability as a percentage of sales at MKL, MJCL etc and we are

working and focusing on these products and based their percentage PBT should also catch up with other products.

**Saurabh Jain:** And one last thing on if you have any shades on progress on restructuring thing?

**Sudhir Jain:** Yes, as I said PT. Minda and Vietnam has already been brought under MIL. We are in consultation with our consultants, working on other 2-3 products which can be brought under MIL, fairly in a short period of time but the final scheme is yet to be finalized. So I hope that in coming years 80% or most of the products would be under MIL. Say 80% of the products or so would be under MIL. So we should be in a position to complete a group consolidation in next 12 months, whatever is feasible as of now and rest we will see in the calendar year 17-18.

**Saurabh Jain:** Any rough idea you would like to give on the absolute number, so what kind of inclusion could be there in MIL?

**Sudhir Jain:** I think next quarter I would be in a better position because these things are yet to be finalized and you never know because of the legal consideration, other considerations, one or two items sometime gets delayed or gets added.

**Moderator:** Thank you. The next question is from the line of Umesh Raut of Equirus. Please go ahead.

**Ashutosh:** Ashutosh here. Sir you mentioned that roughly 7 crores bonus provision was made as part of employee cost. Was it in the standalone of consolidate numbers?

**Sudhir Jain:** It is a consolidate number.

**Ashutosh:** How much it would have been in the standalone roughly?

**Sudhir Jain:** It is about 5 crores.

**Ashutosh:** So adjusted for that roughly your margins should have been 10.5% in standalone, right?

**Sudhir Jain:** Yes, that is possible, but it is a number that we have to factor in.

**Ashutosh:** But 5 crores provision is for last 3 quarters of this year and last full year right so roughly 4 crores would be for one for this quarter right?

**Sudhir Jain:** Yes, you are right.

**Ashutosh:** So margins should have been higher in standalone, in the sense looking at we have seen declines in the margins, but just before that it would have been similar to last quarter. And sir second question is that if I look at your subsidiary wise profitability number, MJ Casting had

some loses as of in the first half of around 1.3 crores. Now this quarter we reported in the 9 months it has a PBT of 0.3 crores. That means that almost like 1.6 crores PBT we have made in this quarter in that business?

**Sudhir Jain:** Yes, you are right.

**Ashutosh:** But I see a revenue decline on say 1<sup>st</sup> half of this quarter essentially. First half revenue was 82 crores, while 99 crores was the revenue for 9 months. That is 17 crores revenue in this current quarter. So even this despite this lower revenue you have more profit from the business?

**Sudhir Jain:** Let me just give you a perspective on this. MJCL till month of August was 50% consolidated and there was a bigger loss that was for 6 months and we have taken 98% that has been four months. So on an overall perspective that number that has come to us is a positive number for 9 months. being a JV we consolidated only 50% prior to August.

**Ashutosh:** That is okay but do you think that this quarter number, Q3 profit number of 1.6 crores PBT, is that kind of run rate kind of sustain going ahead also in that business?

**Sudhir Jain:** We are bracing for a better number next quarter.

**Ashutosh:** And Minda Kosei, when do you start, I mean we have recorded some revenue in the current quarter but what would be the guidance for next year for Minda Kosei, that alloy wheel joint venture?

**Sudhir Jain:** The Minda Kosei project is as per scheduled. It is almost ready for trial production. We will start in the month of March and commercials supplies will start in the month of April and May. So everything is as per scheduled. As far as numbers are concerned, already conformed orders are in hand. So we do not see any challenge as far as the sales are concerned.

**Ashutosh:** But how much can be generated from that business?

**Sudhir Jain:** On 100% or 90% plus capacity utilization the sales will be more than 300 crores but given that it will be first year in operation, we expect it to be around 150-175 at least.

**Ashutosh:** Okay and how much CAPEX we have done so far and how much is remaining in this business?

**Sudhir Jain:** Roughly 100 crores is already being outlaid and we hope to do another 75-80 crores.

**Ashutosh:** That will happen in the next year, right?

**Sudhir Jain:** No, that will happen over the next 2-3 months.



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- Ashutosh:** The entire 180 crores will be spent in the current year itself?
- Sudhir Jain:** Yes.
- Ashutosh:** Okay, so overall what would be your CAPEX company per se in this year and the next year?
- Sudhir Jain:** From Minda Industries standpoint we have this CAPEX of around 180 crores at Minda Kosei and additional 40 crores which is already been spend on acquiring for increasing stake in MJCL and PT. Minda and Sam Global. So that is the roughly CAPEX number that we have committed to this year. Apart from this they also have maintenance CAPEX on a consol basis at 40-45 crores.
- Ashutosh:** And next year mainly it will maintain a CAPEX, there is no other CAPEX next year, right?
- Sudhir Jain:** At this point in time, no.
- Ashutosh:** And this 175-180 numbers is straight for Kosei Minda is for the entire company or your proportion of JV?
- Sudhir Jain:** The maximum investment in Minda Kosei can go up to 200 crores.
- Rajesh Rustagi:** This is for entire company.
- Ashutosh:** So your share will be low, right? You have 70% share in that?
- Sudhir Jain:** Our share will be lower definitely.
- Ashutosh:** And how do you record revenues. I mean you take your share or, how it is done?
- Sudhir Jain:** No, firstly whatever consolidation we do, we do as per accounting standards. thw accounting standards are in place. In a company which we hold 51% equity there would be line by line 100% consolidation, only the minority interest to the extent of profit is reduced and in Minda Kosei we hold more than 51% equity, so in this case there would be a line by line consolidation.
- Ashutosh:** And what would be your debt level as of now, debt and cash level?
- Tripurari Kumar:** Net debt position would be around 250 odd crores.
- Sudhir Jain:** At MIL consolidated level the net worth of the consolidated company is about 450 crores. 450 crores net worth to 250 crores debt.
- Ashutosh:** And this would be the peak debt because there is not much CAPEX next year?

- Sudhir Jain:** As of now no additional CAPEX we have committed so far for the next year.
- Ashutosh:** Okay and sir, we see that whatever PBT number you had in the first half, 9 months our number also similar, so have we not made any PBT in the current quarter in Clarton?
- Management:** In Clarton there is new unit which is coming up in Mexico, so we have start up there. We are having some preoperative expenses which is actually leading to certain cost which is reflected in the number, otherwise it would have been higher.
- Ashutosh:** And how much growth is from switches business within a standalone in the current quarter roughly?
- Management:** This time we have recorded a growth of 8%.
- Ashutosh:** That is switches only.
- Management:** That is in switch, two wheeler switches.
- Sudhir Jain:** When we say switches means electronics and handle bars put together.
- Ashutosh:** So 8% in this current quarter you are saying?
- Sudhir Jain:** Yes.
- Ashutosh:** But sir our standalone sales will be only 3% Y-o-Y. So what is dragging down your growth?
- Management:** The loses is mainly because of our handle bar sales, which is trading sales and another reason is we are into non-auto business LED, where in last time switch was around 10 crores, so now this time no sales.
- Ashutosh:** Sir one is LED and second is what you said?
- Management:** Handle bar assembly which is trading item.
- Ashutosh:** That is not there in the current trend?
- Sudhir Jain:** No, LED you understand in the past we have explained, LED for commercial use, non-auto use we were doing which principally we have decided not to expand or to our existing commitments are there, we are fulfilling, as they result there is no additional sales under the head LED while it is there in the corresponding last quarter or last year.
- Ashutosh:** So going ahead of the LED will not be there?

- Sudhir Jain:** It would not be there.
- Ashutosh:** And handle bar basically even that trading, so there is no margin over there, right? Very low margin.
- Management:** Yes, it is a very low margin product.
- Moderator:** Thank you. We will take the next question from the line of Pritesh Cheddha of Lucky Investment. Please go ahead.
- Pritesh C:** Sir on the alloy-wheels business just wanted to understand, after this anti-dumping duty being imposed, actually how much is the price increase that has come in the market and since when is this price increase actually effective in the market?
- Sudhir Jain:** So as a result of anti-dumping duty there is a price improvement by about 10%. So it varies from 10%-15% per wheel and it has been effective since last 6 months. But during these 6 months sometimes there was a stay by the court and in some cases stay was vacated. So consistently the real effect will come from April 16 onwards.
- Pritesh C:** So It is not still visible in terms of prices?
- Sudhir Jain:** Not last year, I will say. Some extent yes but the full and the real impact will come next year.
- Pritesh C:** Can you tell us what is the prices now per kg? Is it about 350?
- Sudhir Jain:** You are right. I mean earlier it used to be 300 or 310 which is hovering now around +/-350.
- Pritesh C:** And what percentage of passenger vehicles now have alloy wheels fitted?
- Sudhir Jain:** 17% or 20%, not more than 20%. 17% is the exact figure.
- Pritesh C:** So which means out of 20 lakhs cars produced annually in India roundabout, 4 lakhs car is what is being produced is fitted with alloy wheels?
- Sudhir Jain:** And this percentage is increasing and will increase in times to come.
- Pritesh C:** What is your best guess for the growth rate of alloy wheels considering the fact that car grows at whatever 10%-12% and within that more number of cars will be fitted with allow wheels. So what should be the allow wheel growth rate for you and the market?



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- Management:** We are expecting that the alloy wheel which is 17% of the passenger vehicle segment to move up to 20%-25% by 20-21. We have 4%-6% increase in the passenger vehicle which will move to alloy wheel.
- Pritesh C:** And when you are getting 15% margins for this business, you are factoring at about 350 a kg?
- Sudhir Jain:** Yes.
- Pritesh C:** And are we producing anything today or this facility will come in 2016. Do we have any?
- Sudhir Jain:** North facility which is Minda Kosei will come into operation in the month of April commercially and already we are having one south plant from there we supplying something which is as of now this is Kosei Minda plant which is not part of MIL today and that is the part of our consolidation exercise.
- Pritesh C:** So there is one plant which is not a part of MIL?
- Sudhir Jain:** Let me just explain, in the South there is one company Kosei Minda, which is in operation. In this we hold 30%. This 30% is not with Minda Industries Limited.
- Pritesh C:** Okay, it is outside Minda Industries?
- Sudhir Jain:** But as I was answering the earlier question, we are in the process of completing group consolidation under Minda Industries Limited. So in principle we have decided that this plant will also be part of MIL but this transfer of equity is part of the consolidation exercise which we have yet to fill.
- Pritesh C:** And the new plant which you are setting up is at least in Minda?
- Sudhir Jain:** We started that plant in Minda Industries only because by that time we were having an idea that we have to consolidate.
- Pritesh C:** And the Kosei Minda which is currently working in South what is the size of the operations in the plant?
- Management:** The plant is of a similar size which is 60,000 units per month.
- Pritesh C:** How much are you operating at?
- Sudhir Jain:** 50,000 we are making per month in that plant.
- Pritesh C:** So it is kind of fully utilized in the Southern plant?

- Sudhir Jain:** Yes, 50 against 60. I think we can go up to 50 to 53 also. So sometimes we go up to 50-53 sometimes 48-49.
- Pritesh C:** And what are the margins you make in that plant?
- Sudhir Jain:** As I said the impact of anti-dumping duty will come from next year. So this year it would be at a breakeven means '15-16. So after imposition of these duty now prices have improved there. So it would be just above breakeven point.
- Pritesh C:** Okay you are still realizing about Rs. 280-300 a kg and there is a breakeven on that 60,000 wheels per month CAPEX...?
- Sudhir Jain:** Last 2-3 months it is making profit but in the first 6 months those prices were not available, so they were certain losses.
- Pritesh C:** So last quarter at least has it gone to Rs. 350 a kg and 15% margin?
- Sudhir Jain:** Yes.
- Pritesh C:** It has already reached there?
- Sudhir Jain:** Yes, around that.
- Pritesh C:** Around that, okay and what is your market share if you can tell us? Current market share because of that facility, 60,000 wheel?
- Management:** On our full, the market share would be 4.6 million wheels and only with that people we are around 0.6. So that makes it roughly around 5% currently. 5% to 7%
- Pritesh C:** So you make 50,000 x 12 is about 6 lakhs wheels you make and there are let us say 4 lakhs cars which are fitted with 5 wheels, four and plus one five. So 4 lakhs x 5, so about 20 lakhs wheel is which we provide 6 lakhs wheels. So then the market share is not...?
- Management:** Slightly around 10% it should be.
- Pritesh C:** So then is 60 lakhs wheel market. What is the market?
- Management:** Markets will be close to 5 million wheels.
- Pritesh C:** About 50 lakhs wheels.
- Management:** Yes.

- Pritesh C:** And only passenger car have alloy fitted wheels, is that assumption right?
- Sudhir Jain:** We make only for passenger vehicles, so we capture our market share on that basis.
- Pritesh C:** But the market generally has passenger cars only fitted with alloy wheels, right? There is no other category.
- Sudhir Jain:** As of now yes.
- Moderator:** Thank you. We will take the next question from the line of Sunil Shah from Axis Securities. Please go ahead.
- Sunil Shah:** Sir I have just one question which is that once we consolidate all these group company from a minority shareholder perspective this is going to be a EPS accretive deal and an ROI accretive deal. Is that a safe assumption?
- Sudhir Jain:** Yes.
- Sunil Shah:** And sir once we consolidate this entire business, we see our topline or the turnover crossing like 3500 crores mark?
- Sudhir Jain:** I think for this kindly wait for one more quarter.
- Sunil Shah:** I am saying that once we have all those companies and one full year of operation, will our topline be, one year down the lane after consolidation, will it be in that range, meaning again this is on assumption basis, you will take 5%-10%?
- Sudhir Jain:** I think it should be definitely around between 2500-3000.
- Moderator:** Thank you. The next question is from the line of Aditya Sundaram of Edelweiss. Please go ahead.
- Aditya Sundaram:** Sir my first question is basically on the switch lighting and the horns division also. Could you just give me the growth for them that we have done this quarter for each of them, I think I missed that initial part of the call?
- Management:** For switch, we had a growth quarter-on-quarter around, the number for switches is 8%.
- Aditya Sundaram:** 8% year-on-year right, for the quarter?
- Management:** Yes and for lighting this number will be 13% and for acoustics this number will be around 18%.

- Aditya Sundaram:** Overall and basically the horns division that we are doing this 18% overall growth, has there been a very sizeable growth in the OE front where we have gained some amount of market share?
- Management:** Yes, we are already are supplying to Maruti Suzuki but I think we have started supplying for two new models there.
- Aditya Sundaram:** Okay and one of those models would be this thing, are you supplying on the passenger vehicle side, the Vitara, are you supplying that model?
- Management:** That order will come in future.
- Aditya Sundaram:** So then just coming back to it, what are the basically if you could help us out with what are the new models we have penetrated across the products as recently we have come out across various OEMs, two wheelers passenger vehicles as well. So could you just help us with that?
- Sudhir Jain:** Aditya model wise we would not be in a position to discuss. But let me tell you broadly our sales to the OEM is in the same ratio as all these OEMs respective position in the market. Secondly depending up no our position whether we are supplier 1 or 2 in a particular OEM, mostly get the order in that ratio only, wherever we are number one supplier like Maruti, Bajaj, etc. So definitely 2 out of 3 models would be with us. So any specific model question or specific customers I think we can discuss offline with information available to us.
- Aditya Sundaram:** And on the channel wise breakup has there been any new product introduction into replacement segment, how has the growth been there also if you could just share with us and how the margins improve for that business?
- Management:** For MDSL that you are asking?
- Aditya Sundaram:** The replacement, yes.
- Sudhir Jain:** MDSL, we are also growing topline in double digit, exact figures we will tell you. Yes, we were growing by 20%.
- Aditya Sundaram:** And the margins for that business are?
- Sudhir Jain:** Margins are almost the same in MDSL in aftermarket. Aftermarket is of course say volume gain and what is important is the market share as your first question was so our growth in sales is about 20% year-on-year and there our target internal target is to grow the sale.
- Aditya Sundaram:** At the same run rate but this 20% is largely sustainable revenue?

- Sudhir Jain:** In percentage terms it remains almost the same.
- Aditya Sundaram:** And sir basically on the last question that I had, what can we see in terms of the overall ROCE driver going forward, I know it is a little, you spoke about your long term growth of about 20% on a longer basis but if I had to put a number to it and say FY17 how do you think the growth is going to pan out for that year and may be FY18 going forward and where do you think our margins could be?
- Sudhir Jain:** I think as far as 2017 is concerned, I mean your own calculation and to be on a safer side, in your place I would say a topline growth of 10%-15% and I will assume that PAT may be about 4.5%-5% and ROCE about 20%. That will give you fair idea of the cash to be generated in the next financial year and this is better to take on the safer side. Anything better our team can do is good for everybody.
- Aditya Sundaram:** And sir any change in our working capital cycle or something like that, any improvement from there we can see?
- Sudhir Jain:** No drastic change is expected but internally wherever it is possible we are working on that. That is another focus area within the group. In the past we have made improvements in reducing the working capital cycle.
- Aditya Sundaram:** But there is no per se target to it. That is just by the by it is a secondary thing exactly?
- Sudhir Jain:** As of now I mean it is not that substantially the working capital cycle will get reduced.
- Management:** It is already below 30 days Aditya, so we are working for additional by 1 or 2 days but that is our internal target that we have set for ourselves.
- Moderator:** Thank you .Our next question is from the line of Dhruvesh Sanghvi of Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** I just wanted to understand your strategy for the replacement market. We see that your 20% of the total revenues are coming from replacement market. Can you share what it was before 3 years and what is your target over next 2 years from that?
- Sudhir Jain:** Broadly our break up of OEM in replacement market is 80:20. Sometimes it could be 83:17, sometimes it could be slightly different. Let me tell you because our topline is growing at the rate of 20%, then naturally 80:20 remains that we grow in both the markets on an average by 20%. Our strategy is that whatever products we make and supply to OEM should be fed into the aftermarket also through the same channel and replacement is a core sector, core market for us to provide the genuine component to our customers whosoever is using those vehicles. Whether this 80:20 will shift more towards the replacement or not it is very difficult to say

because our prime objective and focus is first to grow the OEM share and as we grow the OEM share at the same rate we need to grow the aftermarket to keep it at a 80:20. Having said that let me tell you also Indian aftermarket is still divided into organized and unorganized. Almost 40%-45% of the market is unorganized. We being OEM player is in the category of organized and command some premium price over unauthorized market. So we would like to keep that brand and brand premium in the aftermarket.

**Dhruvesh Sanghvi:** So one part which you did not answer was, what was it before 3 years if you have some vague number in your mind?

**Rajesh Rustagi:** In '13-14 the turnover was in the range of 270 crores. Percentages are more or less the same

**Dhruvesh Sanghvi:** 17%.But years ago how much was the turnover?

**Sudhir Jain:** It was 270.

**Sudhir Jain:** 270 crores was aftermarket turnover which is now...

**Sudhir Jain:** Now 370, growth of 20% year-on-year.

**Sudhir Jain:** So we have gone from 217 absolute terms to 370. In substantive terms I will say 18% of the total turnover to 20% of the total turnover.

**Moderator:** Thank you. Our next question is from the line of Pankaj Bobade of Axis Securities. Please go ahead.

**Pankaj Bobade:** My first question is we have, the CNG and LPG kit in our product portfolio. So does this Delhi like situation help us in any way?

**Sudhir Jain:** I will say no. The reason is that this CNG, LPG business is entirely driven by respective prices of petrol versus diesel versus CNG and versus LPG. There are two drivers in this. One is of course the pollution and the court order and the second is this relative fuel prices. Now as you know the oil prices are very low. That is one factor and that is why there is off take of this LPG/CNG kits or the vehicle is very limited. The second driver as I said is the pollution and as a result of pollution court decision or the court order and in case you ask me immediate future, something will improve, very difficult to say.

**Pankaj Bobade:** I mean to ask you the developments due to this court order. There has been a move from the diesel owned vehicles to get converted to CNG kit, one with LPG kit. So since we have these two products in our portfolio, will we be benefiting from that development?

**Sudhir Jain:** I fully understand and it is a very good question and this product is also very important and a concern also for us. But with this orders so far we have not seen any much change in the attitude of the buyers because as far as Delhi is concerned still there is a lot of confusion as you know 2-3 parallel initiatives sometimes go on and I think dust needs to settle down as far as Delhi is concerned. What is the final policy in Delhi to control and manage this pollution and which way we want to go, that is actually lacking. As a result, very difficult to say about the future prospect of CNG-LPG kits in Delhi.

**Pankaj Bobade:** Sir if any concrete decision happens in say banning diesel vehicles all together and if the diesel vehicles get converted to CNG or LPG kit, so will our company be a big beneficiary of that development?

**Sudhir Jain:** No, I agree, in case that happens but then let me tell you there is a limitation also whether it is a diesel engine which is to be converted or the petrol engine which needs to be converted. So two different technologies are involved. But having said that without going into that detail in case there is a clear cut direction and policy, towards this pollution and pollution control and definitely CNG/LPG business will get benefitted.

**Pankaj Bobade:** But are we in position to cater to the demand, say conversion of diesel to CNG?

**Sudhir Jain:** Yes, I think we are in a position.

**Pankaj Bobade:** Sir my second question is you have guided for growth of around double digit in coming future. So just wanted to understand auto industry as such is going through slow down, where do we get this confidence of this growth, is it just due to the new products which we are launching, I mean the battery and the alloy wheels or anything else other than that?

**Sudhir Jain:** You are right. The basic confidence is coming from the products which we are launching including battery, including alloy wheels and one or two other products also and few of these products will get added as early as April or May 16. That is one. Secondly we still hope that auto sector will also grow. Of course it has not grown to the extent we expected. The passenger car is growing. It has grown about 7% in the first 9 months. Stagnant is the two-wheeler and three-wheeler and that should also grow and we see that the next financial year the growth should be better than this financial year. But you are right, when I say 20% first I say over a medium to long-term and does not mean that definitely in '17 also we will grow at 20%. But having said that 2-3 new products being added that will contribute major part to this kind of growth.

**Pankaj Bobade:** Sir which are the new products which we will be consolidating?



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- Sudhir Jain:** I will tell you. One is the battery. Today the battery is at a low capacity level with Panasonic Minda, the plant has been set up, immediately the quantum of dispatches will increase. Second is alloy wheel from the North plant which should also start billing from April.
- Pankaj Bobade:** Other than those, I mean from your sister concerns?
- Sudhir Jain:** You are right, there are one or two other products from the sister concern which we are working hard to bring those products into MIL as part of our consolidating exercise which specifically we would share next time.
- Moderator:** Thank you. We will take the next question from the line of Dhruvesh Sanghvi of Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** One more question was related to the battery business. Can you explain a little bit more about this business and what are we targeting here and this is for two wheelers, four wheelers?
- Sudhir Jain:** This expanded capacity with Panasonic Minda under Panasonic Minda Storage Batteries we add four wheeler batteries into the production line as well as industrial batteries. When I say industrial batteries basically it is for batteries meant for industrial purposes. So with this plant, two-wheeler already we are doing at a low capacity level, two wheeler battery capacity will increase, four wheeler batteries would be added as well as the industrial battery and we planned that about 50% of the total production would be to the aftermarket and 50% to the OEM.
- Dhruvesh Sanghvi:** Then I say that in the aftermarket we will directly be competing to the Exide and Amara Raja, is that right?
- Sudhir Jain:** Yes, you are right.
- Dhruvesh Sanghvi:** So considering their brand what will be our proposition?
- Sudhir Jain:** Firstly it is with Panasonic technology. Panasonic is also well-recognized globally, as well as batteries are concerned and Indian OEM are fully aware of the Panasonic technology and brand and already they are willing to buy the batteries, as I said 50% would be to the OEM and 50% to the aftermarket. In itself also Panasonic brand is well known in India, may not be batteries but for other products. Already some quantities of batteries we are importing in Panasonic Minda separately and circulating through our aftermarket channel into the market. Some quantities are already going on. So test marketing has already been done. Various distributors, dealers' regions have already been appointed. The various price points have already been fixed and finalized and for this Minda team as well as Panasonic aftermarket team both are working very closely as one team.

- Dhruvesh Sanghvi:** The plant which is being constructed under the listed entity Minda or what is the capacity and let us assume that if you reach to the full capacity within a few years what can be the potential sale coming out of that?
- Management:** Capacity is around 4 million batteries by around 2020.
- Dhruvesh Sanghvi:** And then there is another plant also which may get merged within this entity and what would be the capacity of that plant?
- Management:** Currently around 1 million of capacity. The new plant which we are having to the new entity called Panasonic Minda that unit will have a capacity of 4 million which will also modify the existing line that we have given to the unit. So together the capacity will be 4 million. So over a period of 2-3 years we see the numbers to be around 300-400 crores in topline.
- Dhruvesh Sanghvi:** And what margins are we targeting or some very vague idea about what can come if we achieve more than 300-400 crores of turnover?
- Sudhir Jain:** As such the margins are concerned as you also said it is a very tough market, big brands are there. So I will suggest less rate for 3 months. We have done our homework. We know but maybe we will share after 3 months.
- Moderator:** Thank you. The next question is from the line of Tanul Shankushal of Vantage Securities. Please go ahead.
- Tanul Shankushal:** I have just one question. Last quarter we saw 13% margin from switches division, 12%-13%.
- Management:** Yes.
- Tanul Shankushal:** And this quarter it is close to 10% as we say, so is it...?
- Management:** If you look at the number last time, we have communicated two numbers. One is on account of manufacturing sales. The manufacturing EBITDA last time we committed was around 14% and this year there is some, on account of some bonus adjustment on that so there is 1-2% points percentage point reduction on account of that and till then overall if you look at the numbers have been quite stable for us. So there is some contribution of the trading item which is handle bar assembly which also is a low margin product and is clubbed with the switch business.
- Tanul Shankushal:** Sir this is only because of that one-off charge we have taken in the current year?
- Management:** Yes, correct.



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- Moderator:** Thank you. Our next question is from the line of Jayshree Ram of Karvy Stock. Please go ahead.
- Jayshree Ram:** This is basic question actually. In the switches segment in the previous con-call, previous presentation you had about 46% mix in your revenue from Bajaj Auto. So could you please share what is the share of business from that client?
- Management:** Jayshree we will come back to you on this. I do not have this number handy with me.
- Jayshree Ram:** Sir would like to request you for MSIL also where you have, you get about 37% the share of business in MSIL Bajaj Auto sir?
- Sudhir Jain:** These numbers are not readily available right now but what I request in case you sent out a mail or we would be in touch with you or you can also be in touch with us.
- Jayshree Ram:** I will coordinate with our investor relations and probably I think we can communicate.
- Sudhir Jain:** Most welcome.
- Jayshree Ram:** And sir basically now, how do you record revenue which is for example say Bajaj Motor cycle. They sell about 8.5 to 9 lakhs motor cycle. So how do you record switches sales, I mean how many switches were needed for a vehicle? Is there any calculation you make like that?
- Sudhir Jain:** Again these numbers separately we can provide because it is not readily available what we call it as a kit value. But as far as recording is concerned, firstly we make all types of switches which goes into the vehicle including Bajaj Vehicle. As far as from accounting angle in case you are asking whatever material is expected by the OEM, is accounted for a sales. Whatever is not in the warehouse of the OEM is our inventory.
- Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi of Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** Sir one last part my team members are also hearing it and there is some confusion among us. Did you guidance of only 5% PAT for the next year?
- Sudhir Jain:** No, what I am saying is that we are targeting consistently we are just touched double digit EBITDA margin, which means that (+10%) and we are targeting 5% PAT margin,
- Dhruvesh Sanghvi:** 5% margin. I am really sorry. Thank you.
- Sudhir Jain:** I am not saying growth in PAT by 5%.



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**Moderator:** Thank you. Ladies and gentlemen, that was the last question, I now hand the floor back to the management for closing comments.

**Sudhir Jain:** First of all, I would like to thank all of you, all the participants, analysts, investors as well as all of you who have been associated and contributing to this. So I thank you all of you and in or two cases I think all the information was not available to us, so I would request Sanjita from SGA to collect the queries and pass it on to us and we would be more than happy to respond to that. And once again thank you, thank you all of you, thank you SGA and the team. Thanks.

**Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Minda Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.