



“Minda Industries Limited Q1 FY2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Minda Industries Limited Q1 FY2017 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in 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 an operator by pressing * then 0 on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Sudhir Jain - Group CFO and Executive Director, Minda Industries Ltd. Thank you and over to you sir.

Sudhir Jain: Thank you. Good afternoon all. I welcome all of you to this conference call. Along with me are my colleagues Tripurari and Rana and of course SGA and their team. I hope you have had a look at our financial results and presentations that has been uploaded on the stock exchange as well as company website. I will speak briefly on the industry and then give an update on our performance, following which we would be very happy to answer your queries.

Regarding Auto industry, as per SIAM data, overall domestic sales across vehicle categories grew by 10% year-on-year during the 1st quarter of 2016-2017. Most important is that it has grown across all vehicle segments, 2-3 wheelers, commercials, passenger cars even LCV segment, which had seen over two years of declining sales is witnessing a turnaround now. The advent of a strong monsoon has augured well for the 2-wheeler industry. In Q1, 2-wheeler sales grew by 13% year-on-year, mainly led by scooters which grew by 31% and motorcycles growing by 5% in Q1 over Q1 of the corresponding last year. The passenger car segment grew by 5% year-on-year in April to June 2016 over last year. This was mainly led by UV segment which saw a number of new launches in the recent past posting its sterling growth of 39% year-on-year. Overall commercial vehicle segment registered a growth of 17% in April to June 2016. This was mainly led by medium and heavy commercial vehicles registering 21% growth YoY on account of growing demand from the infrastructure and mining sector. This growth has also filtered down into LCV sector growing by 15% year-on-year during the same quarter. Despite the growth in domestic field, automotive industries saw a significant decline in the overall exports during Q1, slowing growth in passenger car segment and the double digit decline in motorcycle exports hit the overall performance.

Now coming to the performance, our company performance, at a consolidated level during Q1 financial year 2017, the company registered revenue of 767 crores, a growth of 44% year-on-year from Rs. 533 crores in Q1 of the last year. This was mainly driven by volumes growth across the product line. This was further augmented by consolidation of Minda ASEAN business, Minda TG, Minda Kosie and MJ casting. Operating EBITDA was at 72 crores growing by 112% year-on-year from 34 cores in Q1 of 2016. EBITDA margin has also improved from 6.4% to 9.4%, an improvement of 303 basis points. We are pleased that we

have been able to maintain the margin levels ahead of financial year 2015 level despite two new plants commencing operation commercially during the quarter. That is Minda Kosei Aluminum Wheel plant at Bawal, Minda TG hose plant at Bawal. We are putting all our efforts in sustaining and further improving upon the current margin level. We saw an increase in interest cost during the quarter. This was seen merely on account of acquisition of Rinder and also consolidation of Minda Kosei, Minda TG Rubber which became operational in the quarter under reference. Till last quarter, interest cost relating to Minda Kosei and Minda TG during construction period was capitalized.

PBT before exceptional item for Q1 of 2016-2017 was at Rs. 34 crores, a growth of 113% year-on-year from 16 crores in Q1 of the preceding year. PAT after minority interest almost doubled from 14 crores to 27 crores in the quarter under reference. Margin improved from 2.6% to 3.5%. Cash PAT is at 55 crores for the quarter ending June 30th. EPS has also grown from 8.6 per share in the Q1 of last year to 17.09 in the quarter under reference. As on June 30th debt equity ratio of 0.9.

Coming to product line, switch business contributed roughly 38% of the total consolidated turnover. India sales accounted for 90% of the sales in Q1. International business has increased with PT. Minda Indonesia and SAM Global Singapore getting consolidated with MIL accounts. This division grew by 32% year-on-year.

On a comparable basis after excluding ASEAN business switch business grew by 21% year-on-year mainly driven by higher volumes and improved product mix.

The division has received new export orders from Piaggio to supply USB charger & H20 sensors worth Rs. 6 crores. We have received an export order from KTM for accelerator position sensors and export order for Handle Bar Switch from Arpillia. In ASEAN business PTMA had received orders from Yamaha for power socket for its Thailand market. This is the first time Yamaha is deploying the power socket in the ASEAN market.

Coming to lighting division- Lighting division has contributed 22% of our total turnover. The India sales accounted for 82% in Q1. This division grew by 87% year-on-year. On a comparable basis apple-to-apple after excluding ASEAN business and Rinder business, lighting business grew by 32% year-on-year, mainly driven by higher volumes and improving product mix.

During the quarter, company has completed its acquisition of Rinder group, the Spanish based group, these was consolidated for 28 days in the current quarter.

Coming to a acoustics division performance Acoustic division contributed 20% to the total turnover in Q1. Indian horns business contributed 44% of total horn division growing by 17% year-on-year. As you will recollect part of the business is in Spain under Clarton. Clarton

Horns registered a growth of 30%. The other product line has also started contributing in smaller but positive manner to be financial performance of the company.

With subsidiary turning positive at PBT level they have started contributing positively to the company at PBT level. Our subsidiaries Minda Kyoraku, MJ Casting have contributed positively, vis-a-vis performance in the same quarter last year. In Minda Kosei, a new plant for alloy wheel has been set up at Bawal during this quarter under reference.

As part of the group alignment, board has approved acquisition of 49% stake in Roki Minda for a consideration of 42.50 crores. Here I would like to clarify that Roki Minda is a joint venture between Minda and Roki Japan. Rourke Japan holds 51% equity. Uno Minda Group already holds 49% equity in this company. This joint venture was made in 2012. The plant has already been set up at Bawal at Vithalapur, Ahmedabad and in south in Bangalore. All the 3 plants are functional. But the board decided to bring this investment of 49% in Roki Minda which is under Minda Investment, finance company of the group, from finance company transfer this investment to Minda Industries Limited. The shares of Roki Minda have been purchased at 10.50 per share, face value of that being Rs.10 and book value 10.23 per share. Practically this transfer has been made at book value. Roki Minda is a leading manufacturer of air filter systems, canisters for 2-wheeler, 3-wheeler and 4-wheeler. It has a turnover of about 215 crores with a PAT of 6 crores during 15-16. Roki Minda will be consolidated with effect from October 1 which is Q3.

During Q1, the new entity, that has either become functional which has been consolidated as once again I will repeat, Minda Kosei Aluminium Wheel it started its operations in May 16 and the operations have been consolidated in this quarter for 45 days. Minda TG Rubber has been consolidated in this quarter, it became subsidiary on March 31st. Rinder India has been acquired effective June 3rd 2016

To maintain the growth momentum that we have reached management continues to work with a 3-pronged strategy. First is- realigning the growth structure to simplify it and bring more and more companies and products under Minda Industries Limited. This process started about 2 year ago-one and a half years ago, a lot of efforts and space has been covered, some still to be consolidated. Second is technologically driven inorganic growth & lastly, continuous organic growth in existing product line.

That is all for the time being from our side we would be very happy to receive your queries, questions, suggestions. Thank you.

Moderator:

Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

- Ashutosh Tiwari:** Sir my first question is, I missed out on the volume growth & the growth rate in switches, lighting and horns in the standalone division?
- Sudhir Jain:** In standalone, switch we have grown from around, in percentage term it is 38% in specific absolute; I mean percentage in case you want to know in the mean time we will give you the absolute figure.
- Ashutosh Tiwari:** Sir I want to know is the percentage change?
- Sudhir Jain:** 38% in case of switches.
- Ashutosh Tiwari:** In standalone?
- Sudhir Jain:** Standalone means?
- Ashutosh Tiwari:** Only the standalone reported numbers?
- Sudhir Jain:** Standalone base is 21% ASEAN operations, in the case of lighting 32% and acoustic 17%.
- Ashutosh Tiwari:** I mean, if you give total 21% in switches, lighting 32%, 17% horns then why this standalone growth is 17% only YoY?
- Sudhir Jain:** Standalone growth is 13%.
- Management:** No 17 % is the standalone growth number.
- Ashutosh Tiwari:** Yes 17 %, that is why I am saying if switches are grown by 21% and lighting by 32 % why the overall growth is lower?
- Sudhir Jain:** We have grown from in case of switches, we have moved from 191 to 215, so that number is around 20%.
- Ashutosh Tiwari:** Okay and lighting?
- Sudhir Jain:** Then lighting we have moved from, if you would take four wheelers and two wheelers to put together, then we are around 98 recently 66 last year.
- Ashutosh Tiwari:** Okay and horns?
- Tripurari Kumar:** In acoustics, we are around 50 crores this year, this quarter as against 42 in the last year, corresponding quarter.
- Ashutosh Tiwari:** Okay, so the handle bar has come down in sales?

- Tripurari Kumar:** Handle bar is captured under switches.
- Ashutosh Tiwari:** So what is extra beyond this?
- Tripurari Kumar:** So there is battery which is still under the standalone division. There is fuel cap on the standalone and the Auto gas which contribute small traction but still that is captured under standalone.
- Ashutosh Tiwari:** Okay, secondly what is our debt level of consolidate standalone and cash also?
- Sudhir Jain:** Debt level of consol?
- Ashutosh Tiwari:** Consolidate standalone both and cash also?
- Sudhir Jain:** This standalone we have a total borrowing as on June 30 of 159.7 crores and at the consol level this number is around 528.
- Ashutosh Tiwari:** And cash levels?
- Sudhir Jain:** We will come back to you on that number.
- Ashutosh Tiwari:** Sure and this is a peak debt or it can increase further also from you because already we acquired Rinders and all will come through?
- Sudhir Jain:** So our sense it should decline as certain repayments also be done post the numbers that we have released to some debt have been partially paid down them but which should look at this number to be around 47-480 by March 2017.
- Management:** Anyway I think, the debt equity ratio is less that is number one and we management team very much cautious of this aspect that equity has to remain within 1 and considering the cash, internal cash generation by the Minda Industry consolidated. I think we can safely repay our interest and principle which over a period of time will come down.
- Ashutosh Tiwari:** Okay and Roki Minda, is there any debt in that?
- Sudhir Jain:** Yes, you can assume that it's in the company which has around 0.95 debt equity ratio, so around 80 crores is the total debt in the books.
- Ashutosh Tiwari:** Okay and lastly Rinder India, what kind of number we expect for the full year and would the margin be improved to 8% that was early before acquisition?
- Sudhir Jain:** So overall on a 12-month sale basis Rinder India should cross 400 crores. This is a company with EBITDA positive even at PBT level it is positive.

- Ashutosh Tiwari:** And what kind of margin we can make over there roughly?
- Sudhir Jain:** I think we have just taken over this company. We are working on a strategy to improve the margins. We would be in a position to share may be in next 30 days' time.
- Ashutosh Tiwari:** Last year was 8% right?
- Sudhir Jain:** Yes.
- Ashutosh Tiwari:** Okay and that was including royalty ideally go up?
- Sudhir Jain:** You are right.
- Moderator:** Thank you. We have a next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** On the PBT margin side if you could give some insight because if I look at your performance one thing which has increased in this quarter is interest expense and second I see couple of businesses which have got added in the quarter which is TPI rubber and Kosei Minda that has taken away some 100 basis point and 100 basis points seems to have gone from the interest expense. So since in the PBT numbers and PBT margins could you give some idea on the PBT margin that should be looked at in the future quarters or future year and second when you said that debt has peaked out I did not get that number because you have another acquisition in Roki Minda which will bring in 80 crores of debt. So is there an error there?
- Sudhir Jain:** So as I said Roki Minda is concerned it is a tax positive company. You are right. There is a debt into the books of that company also. But the debt is in their books also less than 1. That is one and it is a running company making profits and set up 2-3 years ago.
- Pritesh Chheda:** So there will be an 80 crores addition in your debt right, when it get merged?
- Sudhir Jain:** So proportionate basis yes, 50% of this would be added. Half of this debt would be added on proportionate basis.
- Pritesh Chheda:** And on the first question?
- Sudhir Jain:** On the first question, as we understand we had some disturbance. You had rightly put that because of some additional interest cost and 2 projects being capitalized and started operations. The PBT margins are slightly stressed and I think you asked that going forward improvement in the PBT margins?
- Pritesh Chheda:** Yes.

- Sudhir Jain:** I tell you two things- first, the way this industry is that H2 is always better than H1, that is one, second is that, we say good sales growth in the sector itself, Auto sector. Maybe the H2 sales would be better than H1 sales in the Auto sector with topline growing definitely the margins will improve. Now what we look at as far as the margins are concerned- we are definitely working internally for double PBT EBITDA which I think in the Q1 is about 9.5. We are targeting 10.5 or so in quarters to come. My PAT should also improve by 1%-1.5% but we are working towards that and it depends on how much the topline improves and how much internal efficiencies and productivities we improve.
- Pritesh Chheda:** And what is the borrowing cost for you when you have this 530 crores of borrowing or borrowings at your group level companies. What is the borrowing cost?
- Tripurari Kumar:** If it is the rupee term loan facility it is ranging around 10.5%-11% and in certain subsidiaries where we do not have 100% control, this could be 11-11.5.
- Sudhir Jain:** On an average you can say the interest cost is less than 11%.
- Pritesh Chheda:** And at what scale of operation will Kosei Minda turn profitable?
- Tripurari Kumar:** By last month of this financial year.
- Pritesh Chheda:** This is slightly different from what is being earlier thought of in Kosei Minda. Kosei Minda was supposed to turn profitable this year. Any changes there sir?
- Tripurari Kumar:** So Kosei Minda is already profitable.
- Pritesh Chheda:** Sorry, Minda Kosei.
- Sudhir Jain:** Minda Kosei is a new plant and started production in this quarter and in the last quarter it will turn profitable.
- Tripurari Kumar:** But on a full year basis if you see the number which is around, rough estimate could be around 6-7 crores of work but the last quarter it should be profitable for Minda Kosei.
- Moderator:** Thank you. We have the next question from the line of Basudev Banerjee from Antique Finance. Please go ahead.
- Basudev Banerjee:** Just wanted to understand like as you said that from 9.5% you are aiming to move towards double digit margin levels, so broadly like from your basket of products, the lights, switch, on so many different products. So what can be the way of margin improvement is here, operating leverage or your bargaining power which your Rinders have scope of improvement or it is product mix, specifically improving, so how to look at that in the longer run. It is not about one year but may be from a 3-4 year angle?

Sudhir Jain:

I think very interesting question Mr. Basudev and first and foremost for margin improvement is better capacity utilization particularly in the case of the new products. So in the last 3-4 years certain products have been added, the latest being in this quarter. So as soon as we will achieve better capacity utilization in these products or I will say new projects our bottom line will improve. As far as the existing products are concerned switches, lights and horns etc. is concerned there is a continuous drive to improve productivity at each level. That is one. Secondly by further consolidating these units and manufacturing processes, margins will improve in case of these established products. This is the second one. As far as our bargaining power or negotiations with the OEMs are concerned I would like to say that we provide end-to-end solutions to our OEMs, when I say end to end means we have in-house engineering department that designs the component and a product, get involved with the OEMs as soon as any new model is conceived, all that relevant work is done in-house. That results into drawing designs of the component and the tooling for which we are paid by the OEMs. Those toolings, etc., is made even in-house or we bought out components we make in-house from those toolings, moulds and dies and then assemble, test, and supply. So this complete chain is in-house. As a result first we get associated with the OEMs as soon as any new model is to be launched. Second is that we become number one supplier for that model. When I say number one supplier you would be aware that in the Auto industry depending upon the volumes, OEM will keep two suppliers, in case the volume as a particular model are above the threshold limit. Two supplier means first supplier is generally enjoying 70% of the share of that model. We will do the development work and the pricing will also be better than the second one. Second supplier take it to manage their risk cost supply. So we are number one supplier in most of the models. We are getting orders for most of the new models being launched by the OEM. With new models with additional features the price of the component is also slightly higher which gives us better margin in the case of new component. So this is a mixture of all these efforts which will lead to margin improvement. Today the margin which we see in terms of PAT or EBITDA this is a weighted average of all products put together. Certain products are already giving us double digit margins, certain products are in the bracket of (+/-5%), certain new components are maybe (-1), 0, or (+1). So there is a good scope to improve those components which are in the range of -1,0 or +1 or which are in the region of 5%. These two category of the products can reach 7%-8%-9% in times to come. I hope I have answered your question.

Basudev Banerjee:

Yes, but the thing is like every time something like Minda Kosei or the Panasonic JV, something new inorganic stuff is getting added which is dilutive to the margin per se and remain at track to the good health of the existing core business. So end of the day overall margin always remains a drag. So how to look at that kind of a picture?

Sudhir Jain:

Now you are right, your observation is perfectly correct but now I think we have also taken a conscious decision to not expand too fast too early. Already so many products we have added in the last 5 years or 7 years. Minda Kosei and Panasonic Minda- these are existing products and existing companies. So that of course we will invest and we will grow but new products to add into the kitty would be very after serious scrutiny. So as such I think the management is of

the view to first consolidate existing product and existing investment rather than investing in new products.

Basudev Banerjee: And sir in standalone business typical what is the wage inflation one should look at because I can see somewhere around 20% odd to increase in staff cost on a year-on-year basis, so though it should not move in sync with revenue per se, so why it is so much on the higher side?

Sudhir Jain: What has happened as far as this year is concerned particularly, across the board there was substantial minimum wage increase. Our main plants are in Haryana, Maharashtra and in South. In all the states, there was a substantial minimum wage increase which had resulted some disproportionate increase in the manpower cost. But this phenomenon was I think very specific to this particular year. Having said that, I would like to share with you whenever there is a cost abnormal or not average cost increase whether it is a raw material cost and even wages etc., we tend to be compensated by the OEM also. But there is a time lag. Time lag could be of 6 months or 9 months which pays us to get it compensated.

Basudev Banerjee: And if I missed in the call, your depreciation this quarter for standalone like is multi quarter low, any change in policy or anything like that?

Sudhir Jain: No again a very good observation, this is mainly on account of 2 factors. First is that, in the last year last quarter there was this component accounting concept introduced which became effective to compute the depreciation. I will repeat. Depreciation of each item of fixed assets, the concept was introduced by the Indian Accounting Standard across the board. It is applicable to all listed entity. So depreciation was to be charged based on the nature of the component of the fixed asset. As a result, there was one time depreciation in the last quarter which is not to that extend in the current quarter. This is one. Secondly, there was an error- last quarter and we charged higher depreciation last year which has been partly reversed in this quarter. So this was a pure mistake in the last quarter.

Basudev Banerjee: Okay, so broadly the present run rate is sustainable one, even at consol level, unless until something gets added?

Sudhir Jain: Of course we are going to be adding Roki Minda.

Basudev Banerjee: Yes, last question sir what is the tax rate one should look at because it is very much fluctuating like 25-22 sometimes 13, so what kind of tax rate one should look at?

Sudhir Jain: As far as tax rate is concerned, you will see again what happens, you will be finding that that tax provided in the last quarter is lower than the current quarter.

Basudev Banerjee: You have the balance in quarter as such?

Sudhir Jain: Yes. So last quarter is always a YTD adjustment of taxes let me tell you because in each quarter we provide based on the calculation and the last quarter we compute for the 12 months and whatever is the difference we provide. That is why the amount is low. But let me tell you consistently Minda Industries is able to maintain 22%-23% tax rate to the PBT book profit which is the MAT rate. So we hope to maintain that rate.

Basudev Banerjee: So this is for consol entity.

Sudhir Jain: Even in the consol entity.

Moderator: Thank you. We have a next question from the line of Deep Shah from SBICap Securities. Please go ahead.

Deep Shah: Just to start with if I read it correctly, your switch, your lighting and your horns division has seen kind of good growth, good double digit growth. So I would like to know first which are the customers that is driving growth for you and second how much is due to organic and that is how much is due to organic and how much is due to inorganic that is acquisitions that you may have done?

Sudhir Jain: Broadly I will tell you and I think numbers we can share if we are not ready I will request Tripurari to mail you the numbers. As far as switch is concerned, all growth is organic, as far as light is concerned also organic except to the extent of Rinder sales- which has come effective June 03 for 27-28 days or during the year is no acquisition made but as far as horn is concerned all domestic operations Indian operations are organic. As far as Spain operations are concerned Spanish entity was acquired in 2013, so one growth is coming from there. Now regarding numbers specific numbers, organic, nonorganic maybe Tripurari can give.

Tripurari Kumar: In terms of the inorganic growth I think only in lakhs we have sale of Rinder which has come through inorganic acquisitions which is around 30-odd crores for this quarter and Clarton which is into horns based in Spain and Mexico- that has contributed around 97 crores in topline.

Deep Shah: And sir which are the customers these are driving particularly in the domestic field?

Sudhir Jain: Domestic business is, I will tell you as far as the customers, our main customers in 2-wheeler are Bajaj, HMSI, TVS and then Hero, in this order. So HMSI sales are growing. So, the Bajaj including exports. So these two customers are driving our sales in switches. As far as our lamps are concerned these two customers plus the Maruti Suzuki also. Lamps we supply to Maruti Suzuki in a good number. As far as horn is concerned again horn also our share of business is increasing in Maruti. In a nutshell let me say Maruti Suzuki, HMSI, Bajaj- these 3 customers giving growth in domestic sales.

Deep Shah: Sir my second question pertains to raw material basket, I mean raw material cost. I would like to know how much proportion of raw material of your entire raw material cost is imported?

Sudhir Jain: As such let me tell you all basic raw material is available in the country. However, depending upon the differential of the landed price and the domestic purchase, we do import some material which is more in the case of aluminum die casting business which is under MJCL. So aluminum we do import because we find that the requisite specification material is easily available outside India and sometimes landed cost of that material is lower than the material available domestically. Now what percent is, I think not readily available but my guess would be maybe 6%-7% of the total R&D requirement. This is my guess.

Deep Shah: This is on consol basis or standalone.

Sudhir Jain: I am saying consolidated basis.

Tripurari Kumar: This number would be true for MIL standalone because if you look at my consol business on Minda Kosei and we are currently importing entire raw material number and in consolidation we have entity which are overseas also, so that we will be wrong estimate to look at.

Moderator: Thank you. We have the next question from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bodade: One of the entities which is making losses that is MKAWL, that is Minda Kosei Aluminium Wheels Alloys if I am not wrong?

Sudhir Jain: Yes. MKAW means Minda Kosei Aluminium Wheel.

Pankaj Bodade: Right, this is the new plant which we are having at Bawal. Does this also include the Chennai plant which we have acquired from Uno Minda?

Sudhir Jain: Actually Chennai plant is a different company Kosei Minda where Kosei hold 70% equity, Minda hold 30% equity. But Kosei Minda investment is also for Minda Industries Limited, so their plant is there, Kosei Minda's Chennai plant and Minda Kosei has got only plant which is Bawal plant.

Pankaj Bodade: So this Kosei Minda where it is accounted for?

Sudhir Jain: Kosei Minda is an independent company and the 30% of the equity of that company is held by Minda Industries Limited. So as an associate, profit of that company is accounted for in the consolidation as far as Indian accounting standards.

Pankaj Bodade: Sir what is this current status of Minda Kosei, what is the current capacity utilization and when are we expecting it to be broken even?

- Tripurari Kumar:** The last month there will be installed capacity was around 30,000 wheels per month. We made a sale of around 25,000 wheels but in the month of August we have almost reached installed capacity of 60,000 and the volumes should ramp up from here.
- Pankaj Bodade:** Okay, 60,000 is our total capacity right for that company? For that unit?
- Tripurari Kumar:** 60,000 wheels per month.
- Pankaj Bodade:** And we are expected to break even by last quarter of this year?
- Tripurari Kumar:** Yes.
- Pankaj Bodade:** Sir in addition, this Minda TG what exactly is the product and when do we expect it to breakeven?
- Tripurari Kumar:** In Minda TG we do brake hoses and fuel hoses and this company is likely to breakeven in the next financial year and not in this financial year.
- Pankaj Bodade:** FY18?
- Tripurari Kumar:** Yes.
- Moderator:** Thank you. We have a next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** My question is regarding the EBITDA margins, if I see your EBITDA your topline for the quarter compared to March has gone up from 770 versus 766 crores whereas our EBITDA has come down, so is it mainly because of the consolidation of Rinder and couple of other companies that you mentioned or is it because the base business also saw some compression in margins?
- Sudhir Jain:** If you look at the margins for the quarter vis-à-vis the EBITDA margin for the last financial year you will see the numbers have almost risen. Having said that this quarter we have certain losses that we have incurred on account of new operation of Minda Kosei and Minda TG. Had it not been there then the margins would have been better than what you see.
- Sachin Kasera:** Can you quantify because you have given the PBT margins, if you could tell us in the EBITDA level that would be really helpful?
- Sudhir Jain:** That will be a number which I will conclude and send it to you Sachin.
- Sachin Kasera:** Sure secondly I just missed the number on the debt on the consol number if you can repeat that number sir?

- Sudhir Jain:** As at June 30, 2016 this number stands at 528.
- Sachin Kasera:** And this you said will progressively come down by the end of the financial year close to around 470-480 crores?
- Tripurari Kumar:** We have already paid out around 10-15 after June but having said that we should see some pay down happening during the year?
- Sachin Kasera:** Secondly, if you could tell what is the CAPEX for the parent company as well as for all the subsidiaries put together in the current financial year?
- Tripurari Kumar:** This number I think on a maintenance CAPEX basis this number would work out to around 80-85 crores and whatever will be in addition to this will be on account of group consolidation.
- Sachin Kasera:** 80-85 is the parent, you said?
- Tripurari Kumar:** For the consolidated entity maintaining this CAPEX.
- Sachin Kasera:** And for the parent, standalone entity?
- Tripurari Kumar:** Target number will be around 40-45.
- Sachin Kasera:** And in terms of any new initiatives that we are taking in terms of further improvement in margins for the current financial year?
- Sudhir Jain:** Yes I think lot of stress we have taken to improve the margins. As we explained earlier also let me tell you all of our power products we have classified into 3 brackets one is where the margins are already in double digits, when I say margins means PBT level, profit before tax level are already in the double digit, the second category is which is around 5 to (+5%) and the third category is which is around 1%-1.5% or (-1%). So the whole organization is focused to issue the margins of all these 3 categories particularly the category we fall into 5, (+5) and 1, (+1). These categories will lead us to improve the overall bottom line.
- Sachin Kasera:** I am saying this year you are looking at a 10.5%, I mean you are targeting to achieve 10.5% EBITDA margin on a consolidated basis versus 10% last year, is that what you had mentioned in the previous year did I get that right?
- Tripurari Kumar:** That is right. We hope margin improvement between from current 9.5 levels to move to 10-10.5
- Sachin Kasera:** Secondly, regarding this battery now that Panasonic has exceeded what is our plan for businesses, or we do not have any partner, so would we want to exit this business or is the strategy that without the partner also we can make this business profitable?

Sudhir Jain: No, I think definitely there is a demand for battery in the country and OEMs are looking for an additional supplier. Thirdly, we intend to run this plant and with a partner but already we have started working and we will run this plant of our own, parallelly we are looking for the partner in the battery business and as far as our CAPEX or capital investment is concerned this plant we have now taken over from the Panasonic. We are in that process and without any additional much cash out flow.

Sachin Kasera: What is the revenue that you see from the battery business this year or next year or will it contribute positively or for the first one do you think it will be a drag on the profitability of the company?

Sudhir Jain: This year working out, let me tell you we are in the progress of takeover, definitely SPA we have already signed and as per the SPA we will acquire the whole facility at 1.80 crores less than 2 crores investment was 100-150 crores. Now our team is working in taking over the management as well as the same team is working to work out this strategy for the battery. Numbers are not ready. It will take another 30-40 days to share the numbers with you once we are ready. So as a strategy, we have decided we will run it and we will look for a partner.

Sachin Kasera: Sure. As of now we would be initially firstly targeting only the OEMs. So we have got any approval from the OEMs because only then we will be able to start commercial production?

Sudhir Jain: We are exploring firstly, we are exploring both the possibilities of the OEM also as well as the aftermarket. Let me tell you and you would also be aware that battery the real profit is in the aftermarket. OEMs thus reviewed the main and the brand value. So we are working on this strategy maybe we will first introduce the battery in the aftermarket then we will go the OEM.

Moderator: Thank you. We have a next question from the line of Mahesh Bendre from Way2Wealth Securities. Please go ahead.

Mahesh Bendre: In the 1st quarter we have grown by 44% in terms of sales growth, there is a consolidation and many things have happened. So what is the revenue growth and outlook for the FY17 and FY18 if possible?

Sudhir Jain: I will use certain thumb rules. In case our automobile sector is growing in double digits, say 10-12%, our topline growth from the sector should be 17%-20%. During current financial year and the next financial year. After that I do not know as of now. So this would be the topline growth. So I can say 1.45x of the industry growth our topline will grow.

Mahesh Bendre: But sir in 1st quarter our growth has been 44%, so I am just wondering what could be the growth for entire full year because many businesses new businesses that have come up and consolidation has taken place. So I am just trying for FY17 at least.

Tripurari Kumar: To give you a sense to look at the numbers this year, since we have consolidated some companies for limited period this quarter. A 4x multiplier would lead to a 3200-3300 number.

Mahesh Bendre: So that could be a number which one should look at?

Tripurari Kumar: Yes, conservatively.

Mahesh Bendre: And sir I missed your point on margins, in the 1st quarter our operating margins are 9.4% which is very similar what we report in FY16. So going forward do you see at least an improvement in the margins?

Tripurari Kumar: Sir has indicated earlier during the discussion we have targeted the number to be around 10%-10.5% for this financial year in a fully consolidated basis.

Moderator: Thank you. We have a next question from the line of Kush Joshi from Kitara Capital. Please go ahead.

Kush Joshi: Sir my question is with respect to Roki Minda. I just wanted to understand the revenue breakup between air filtration and Canisters?

Sudhir Jain: I will you. As of now 99% is air filtration and oil filters and not canister. Canister in two wheelers is being introduced in India. So far there is no canister requirement in two wheelers but that requirement has just come and shortly canister demand will increase. So for your internal assessment you can safely take 100% for filters.

Kush Joshi: Okay and what is the capacity for canisters?

Sudhir Jain: I think we will to find out. Offhand we do not know. We will come back to you.

Moderator: Thank you. We have a next question from the line of Ashok Lodha from Max Future. Please go ahead.

Ashok Lodha: Most of my questions were already been answered. Just regarding the expenses part in the consolidated has gone up significantly year-on-year basis. Employee expenses you have already answered. Regarding the other expenses can you give a breakup for this?

Sudhir Jain: We can give you the breakup for principally, I will explain. We have done in-house also this study, if we take out the expenses. In case I read from my consolidated published results for June 16, in case I reduce my capitalization of Minda Kosei, Minda TG and Rinder because these are the 3 companies or the 3 products capitalized for the first time or became operational, not capitalized, became operational for the first time in Q1 for which expenses have been treated as revenue expenses, balance is almost same as in the last quarter. So whatever increase is coming in expenses is only because of operationalization of these 3 units.

- Ashok Lodha:** Employee expenses you have already cleared that is okay. Just one more thing. Previously you have land for the merger for MJ Casting and demerger of investment division of Minda Investments. So now again it has been called off I guess, read somewhere. So what is the thought process of management behind that, I mean why it has been called off?
- Sudhir Jain:** I will tell you what happened. In the meantime actually this scheme was approved somewhere in the month of May and we were doing two things and MJCL merger with MIL and hived off of certain investments to come into the MIL. In the meantime, what happened is Panasonic development came and Panasonic was exiting and we could finalize the acquisition of Panasonic shares with us at 1.8 crores. This is one, then there are some regulatory changes also in the meantime. So the board wants us to relook the whole scheme and whether to have one scheme for all these or two different schemes of some other way. This scheme also takes time in the sense we will have to go through High Court. High Court takes about 9-12 months to approve the scheme. So we were advised that we can do it in a more time efficient way and can also look at Panasonic whether to merge or not to merge and that is why board decided to withdraw the scheme and now we are working on an alternate mode.
- Tripurari Kumar:** So it could be possible that certain entities out of the merger scheme could be completed faster or sooner than what would have been done in case the merger route was taken.
- Ashok Lodha:** Okay and regarding the Panasonic Minda storage battery, you have completed the acquisition, so when can we expect the local products, right now you are importing the batteries and selling, right?
- Tripurari Kumar:** No, certain trial runs are on from the facility for Toyota and Maruti, while this standalone entity whatever you make is for 2 wheelers and it is sold in the aftermarket.
- Ashok Lodha:** So when we can expect the local production to start here?
- Tripurari Kumar:** As I have explained earlier we are currently in process of takeover of the management and around 30 days we should be able to give you that number in terms of where we think we should be able to make more inroads.
- Ashok Lodha:** So I came across some article that in 2008 also you started an automotive battery which was again in 2012 called off, that was because of some quality issues?
- Sudhir Jain:** This is the same battery which is currently at standalone and we have the technology from Fiamm of Italy and when post Lehman when Fiamm decided to rollback its operations we were looking for a joint venture partner and I had this joint venture with Panasonic but due to some global transaction which Panasonic has incurred with Hyusa of Japan to exit the VRLA battery business globally. So we have been faced in this situation. For the next 35-40 days we should be able to come out with a robust business plan and we will continue to explore joint venture partner in the battery business.

- Ashok Lodha:** Yes because battery business is significantly very huge business in India and mostly 40% is basically captured by unorganized market, even coming GST will help this also.
- Sudhir Jain:** Yes.
- Moderator:** Thank you. We have the next question from the line of Mahantesh Sabrat from SBICap Securities. Please go ahead.
- Mahantesh Sabrat:** I just wanted to understand your business model. You have various switches, you have lamps, you have horns many of these will involve a lot of tooling cost and correct me if I am wrong whenever supply begins to an OE you will first have the pricing done in 2 parts or two compartments, one is the tooling cost amortization is built into the price and after a period of maybe 1.5 year, 1 year the tooling cost goes off. So do we assume that there will be a price erosion for you as we go forward because the tooling cost drops off. The charge of the tooling cost drops off in the price?
- Sudhir Jain:** I think it is a very good question and right also. Actually the whole industry works on 2-3 options or 2-3 ways. In some cases, customers reverse upfront 100% of the cost. So, both are independent, my relevant cost or engineering cost including tooling cost and the product guide. In some cases, customer gives me only amortization which runs for one year or two years and in some cases it is partly upfront and partly amortization and this combination continues for existing products as well as the new products. We have sales and amortization agreement with the customer, you are right, after specific period or number of vehicle so to that extent, I said the price will go down. But having said that, it does not have any impact because it is a running system. Always there are products into the system where in some cases amortization is continuing, in some cases amortization period is over.
- Mahantesh Sabrat:** So out of your 767 crores of revenue on a consolidated basis that you did for Q1 how much is the tooling cost that you have got?
- Sudhir Jain:** Figures will not be readily available, we will find out and inform you separately.
- Mahantesh Sabrat:** Kind of business you chose to be substantially high?
- Sudhir Jain:** I will tell you, again my gut feeling I do not have ready figures. We can explain that 5%-10% or may be 10% is tooling cost, either lump sum or amortized.
- Mahantesh Sabrat:** That means you are saying out of 767 crores 76 crores is the tooling cost that you are billing to the customers?
- Sudhir Jain:** Ballpark figure, **from my gut** feeling.

- Mahantesh Sabrat:** So in two years if I assume that if two new products are getting adding, your entire EBITDA gets eroded, right?
- Sudhir Jain:** Yes, in case new products are not coming, you are right. But let me tell you there is never a day when the new products are not in the pipeline rather my order book is so full. Secondly as you will observe now number of models is increasing every day by the OEM also in the market. There is so much tough competition among the OEMs that they have to introduce new models or safety to existing models. Not only 4 wheelers, we are having two wheelers also and as a result development work has increased many fold and the kind of product we make, witches and lights like particularly I mean these are the two progress which would be definitely changed in case there is any facelift of the existing model or a new model because if anything new model they have also to give to the customer some additional feature.
- Mahantesh Sabrat:** And I have another second question and you have given a beautiful chart in explaining how the revenues grow from standalone to the consolidated, likewise who the PBT grows from the standalone to the consolidated. But then the moot question is from a standalone to the consolidated revenue almost double it becomes 1.9x but your PBT incrementally, that means incrementally you have added on the revenue 366 odd crores but on the PBT level you are incrementally adding only 6.6 crores. So I just wanted to understand when can we see the incremental revenue additions given substantially delta increment to the PBT level?
- Sudhir Jain:** First thing your observation is 100% correct and the real growth in the bottom line is to come from this particular segment in the group. Now when it will come, you ask me I will say '17-18 accounting years should be full blown as far as these units are concerned, these companies are concerned to add to the bottom line.
- Mahantesh Sabrat:** So and that time the revenue would be, what could be the revenue expected because you I think implied a guidance of 3300 crores consolidated revenue for FY17, so FY18 could be what sir?
- Sudhir Jain:** 20% of the last 6-7 years or 8 years our topline growth here is 20%-21%.
- Mahantesh Sabrat:** But that is inorganic sir.
- Tripurari Kumar:** I mean over period of time also. I mean it could be on addition of new product lines also which could be some greenfield expansion which has happened in case of switches we have expanded out of lets say Manesar region, we put up a new plant in Hosur and for example now that Roki Minda will be added in the next financial year you will see...
- Mahantesh Sabrat:** One of these investments with CAPEX put together figure guidance for this year and next year?

- Tripurari Kumar:** No, I think apart from the consolidation exercise that we are currently on and for the balance sheet number that you have looked at March 31. We are looking at a CAPEX guidance of around 80-85 crores on a consol basis.
- Mahantesh Sabrat:** For each of these years?
- Tripurari Kumar:** For the current financial year. This number could be incrementally higher by another 5 years.
- Mahantesh Sabrat:** What is the additional investment that you will do in your subsidiaries to acquire major portion from your JV?
- Tripurari Kumar:** For example Roki Minda we will be spending around 42.5 crores to acquire the stake in this company and that could be between 10-15 crores of fresh investment in any of the subsidiaries on a case to case basis.
- Moderator:** Thank you. We have the last question, a follow up question from the line of Pankaj Bobade from Axis Securities. Please go ahead.
- Pankaj Bodade:** Sir two questions. You mentioned about CAPEX of 80-85 that would be maintenance CAPEX and what would be spend on group consolidation?
- Tripurari Kumar:** This year Roki Minda has been already, decision to acquire is, 41% has already been taken. So that would entail the investment of around 42.5 crores and as and when we take further unit we will do a valuation and we will be able to give you a number.
- Pankaj Bodade:** What is the amount set aside for the same?
- Tripurari Kumar:** We have not really carved out but as and as and when such decision come, the board consider them.
- Sudhir Jain:** That is for future I think, if can safely take 80 crores as CAPEX plus 42 crores for this acquisition of share.
- Pankaj Bodade:** Sir you mentioned 80-85 maintenance and whatever comes for acquisition?
- Sudhir Jain:** Yes. But this acquisition is not external acquisitions.
- Pankaj Bodade:** It will be consolidation.
- Sudhir Jain:** It is consolidation which is now 42 crores which is as per the Roki Minda.
- Pankaj Bodade:** Right. Sir I missed up on the Panasonic JV. As I understand we were to have JV with Panasonic for developing our battery business. But then somehow it did not go through and in

the process we were expecting some order book from their South East Asian country plans to be sourced from India?

Sudhir Jain: If I get you correctly earlier Panasonic was sourcing it from its plants in Thailand and other South East Asian countries and we provide and supply to OEMs in India. With this plant coming up that was supposed to increase stock. But we have already undertaken trial runs for certain models and certain platforms with these OEMs and as and when they are able to build up a business plan we will be able to communicate that number to you.

Pankaj Bodade: Sir what is the current status now we were not to invest anything and only Panasonic was to invest whatever amount, incremental CAPEX was to be done. So what is the current status now?

Sudhir Jain: The current status is that Panasonic has already invested and this plant has been set up, plant productions have already been taken. No further CAPEX is required. Now we are in the process of taking over this plant from Panasonic and we are also in the process of making business plans for this plant. So no additional cash flow is also required from our side, from Minda side also.

Pankaj Bodade: So what is the consideration did we pay for taking over the Panasonic share?

Sudhir Jain: I think it is just negligible- it is about 2 crores which we have to pay to acquire the company plant.

Pankaj Bodade: Okay and henceforth we will be owning 100% of the new entity?

Sudhir Jain: You are right.

Pankaj Bodade: And it will be coming under standalone?

Sudhir Jain: It would be part of Minda Industries and subsidiary of Minda Industries.

Pankaj Bodade: Okay and by what time do we expect it to start commissioning and rollout the products?

Sudhir Jain: The plants has been set up, prior production have been taken, tested. Now we will, I think it will take us 3-4 months to really start commercial production.

Pankaj Bodade: Do we have any internal targets by year end, how would be the revenues from them?

Sudhir Jain: I think you will have to wait for that, we are in the process of making that business plan for this particular product.



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Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to handover the floor to the management for closing comments. Over to you sir.

Sudhir Jain: Firstly, I would like to thank all of you to participate in this discussion. Thanks for raising very pertinent and relevant questions. Some of the questions we could not give you very specific answers particularly in terms of the numbers. We have noted and I and Tripurari together we informed the concerned person and you are most welcome to contact us for any other query and numbers. With these remarks once again thank you very much and wish you all the best.

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