



“Minda Industries Limited Q2 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Minda Industries Limited Q2 FY17 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions, expectations of the company as on the 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 the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sudhir Jain - Executive Director and Group CFO of Minda Industries Limited. Thank you and over to you sir.

Sudhir Jain: Good afternoon dear investors, a warm welcome to all of you. On the call today, I am joined by my colleague Mr. Tripurari, Mr. Rana, Payal, Jijar from SGA, our IR consultants. I hope you have had a look at our financial results and presentation that is uploaded on the exchange website as well as on company's website.

I will speak briefly about the industry, auto industry. Automotive sales in value terms during the second quarter of 2016-2017 grew by 19% year-on-year basis as per SIAM data. This number based on production, numbers, growth is about 12%. The growth has been seen largely in two-wheeler segment and four-wheeler passenger segment. Commercial vehicle segment is showing a slow turnaround largely with SCV segment dragging the sector. Seventh pay commission, favorable monsoons have provided strong levers for growth of the industry.

In Q2, two-wheeler sales grew by around 20% in value terms compared to 10% in the previous quarter. Passenger car segment grew by over 17%, segments of continued good push from sales led by new product launches shift in preferences for the urban consumers. Commercial vehicle segment which is medium, heavy, LCV registered a muted performance in the same period. This was mainly on account of degrowth in medium and heavy commercial vehicles, while LCV reported steady growth of 11% during Q2. Despite growth in domestic sales, automotive industries show a significant decline for the second consequent quarter for the current year as far as overall exports are concerned. Double digit decline in three-wheeler exports and motorcycle exports impacted the overall performance of the sector.

In terms of production, overall production for the industry has grown by 12% quarter-on-quarter major being of course two-wheeler and passenger vehicle as in the case based on value. Two-wheeler production increased by 14%, while passenger cars production increased by 11%. On the other hand, commercial vehicle had weak production along with three-wheeler segment. Continuing with good Q2 2017 sales, month of October saw robust festive sales in passenger vehicles and two wheels with recovery in rural growth continues to play a larger part in the overall performance in the sectors outlook for the remaining year. The ongoing wedding season with improving macroeconomic conditions will add further growth drivers for the coming quarters.

The new initiatives, here I would like to add the impact of demonetization of the currency notes, 1000 and 500 as you are aware. We will also have an impact in the quarters to come, what would be the extent of impact very difficult to give as of now, but as the impression is as we are also hearing that as soon as the new currencies in circulation, things will come back to normal as is expected and may be Q3 would be affected overall, but from Q4 onwards maybe everything would be normal as far as the impact of currency is concerned. As of now, I won't go into the details of the impact of demonetization.

Now coming to the performance of the company Minda Industries Limited, quarterly results are with you, our copy of the press release is with you and I hope investor presentation is also with you. So in the interest of time, I will not run through the company's performance product wise as we can discuss during question-answer session. One thing I would like to point out in Q2, during this Q2 certain new entities have been consolidated. You are aware that since last about 15 to 18 months, the group is working on consolidating its various entities under Minda Industries Limited. So during the quarter, we acquired Rinder in June, quarterly impact on top-line and bottom line has been consolidated in Q2 for the first time. Similarly, Minda Kosei aluminium plant which has been set up at Bawal became operational in the month of April, its first full quarter consolidation is also in Q2. This is the background and with this background, I would like to open the floor for any question-answer session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, how was the growth in the three segments of standalone switches, lighting and horns?

Sudhir Jain: On the switch systems, we have grown by almost 17%; on the lamp systems, we have grown by almost 28% and on the acoustics side, the growth has been in the range of 23%.

Ashutosh Tiwari: Number of the standalone growth is 17% only Y-o-Y right, sales growth?

Sudhir Jain: The switch number is higher, right.

Ashutosh Tiwari: No, I am saying that 17% is the overall growth for revenue in standalone, then all segments cannot go to 30%.

Sudhir Jain: Switch grew by 12% that is on the lower side.

Ashutosh Tiwari: And, so in lighting basically what is happening, where are we gaining market shares, is the frontline also gaining more traction?

- Sudhir Jain:** This recent movement has been on the side of Renault we have been doing good business. There is firm commitment of certain lamps from Maruti as well and we are trying to make inroads with the TATA's new model, the new platforms as well.
- Ashutosh Tiwari:** KWID with the current quarter?
- Sudhir Jain:** KWID for last two quarters has been the reason for upward movement on the sales side.
- Ashutosh Tiwari:** And in horns, I mean, this growth is more than industry growth, are we gaining market share and then which customers we would be?
- Sudhir Jain:** We have added Hyundai and we have added certain new models of HMSI and Bajaj.
- Ashutosh Tiwari:** And secondly, what would be CAPEX amount for this year, all including and plus investment in this year whatever has been announced so far?
- Sudhir Jain:** What we have announced so far in terms of consolidation expenses that will be 71 odd crores which include Roki Minda and ASEAN business consolidation. Apart from that, there is maintenance CAPEX which will be around 80 to 85 crores for the full year and we have announced expansion of alloy wheels, so which will entail additional outlay of 55 crores to increase capacity from 90,000 wheels to 120,000 wheels. But all these investment for example, particularly Minda Kosei, is not necessarily with equity.
- Ashutosh Tiwari:** There is no equity in the third.
- Sudhir Jain:** Yes, it will be internal accruals or some debt.
- Ashutosh Tiwari:** This 55 crores number, there will be share of the joint venture partner as well right in this 30%?
- Sudhir Jain:** Yes, it includes total project cost, extension cost including debt, equity and internal accrual, actually fresh equity is nil. So, there is enough cash generation within the company to fund partly this extension.
- Ashutosh Tiwari:** And on Roki Minda, how should we look at in terms of numbers, this will get consolidated from October 1, so what kind of number potential it has?
- Sudhir Jain:** Roki Mind has a full year potential of approximately 215 crores, our share will be around 49%. This year before IndAS kicks in, it will be a line-to-line consolidation and we expect the PAT number to be in the range of 5 crores to 7 crores for this year.
- Ashutosh Tiwari:** This will be total or this will be our share only?
- Sudhir Jain:** It will be total number.

- Ashutosh Tiwari:** So, these consolidations have been with IndAS from next quarter, right?
- Sudhir Jain:** Yes, this quarter, current quarter.
- Ashutosh Tiwari:** And also lastly on Onkyo Corporation JV, can you throw some light why we are doing this thing and what benefits it can bring it potential?
- Sudhir Jain:** Yes, Onkyo is a Japanese company. They are into speaker business. As you are aware, it is one of our group companies which is Fujitsu and Minda. Through that company, we are into infotainment system and particularly in audio, car audio systems and we supply audio to Maruti and Toyota. So in order to supplement this product and make it a complete set, we are entering into JV with Onkyo who is a speaker supplier, they are also supplying speaker to Fujitsu Ten at other locations outside India wherever their plants are there. The total investment in this project is likely to be 40 crores, project cost which would be divided into debt and equity 50-50 and our share of equity would be 50%, so it is a 50-50 joint venture with Onkyo.
- Ashutosh Tiwari:** So roughly 10 crores are over there?
- Sudhir Jain:** Yes, our feeling is that about 4 crores-5 crores equity would be contributed and balance 4 crores-5 crores would be contributed in the next financial year.
- Moderator:** Thank you. We have the next question from the line of Basudev Banerjee from Antique Stock Broking. Please go ahead.
- Basudev Banerjee:** Few questions. At standalone level, separately if one see your other expenses have shot up quite considerably sequentially, any specific one-off in that?
- Sudhir Jain:** Basudev, what happened we concluded the acquisition of Rinder in the first quarter, so lot of the expenses were build towards the late end of the first quarter and mostly they accrued in the second quarter, so that is how there is slightly one time increase of between 1.5 to 2 crores on that account.
- Basudev Banerjee:** But so 9 crores Q-o-Q jump, out of that you are saying 2 crores is for their inter fees?
- Sudhir Jain:** Yeah and then as you are aware there is power and fuel expense. So, if you look at it as a percentage because the sales have gone up, so those numbers also increased. So, that will correspond to 4 crores to 5 crores itself.
- Basudev Banerjee:** And at consol level or the subsidiary level ex of standalone if one sees, the margin has also shot up, is it purely because of the higher margin Rinder coming in or something else also?
- Sudhir Jain:** If we look at the full picture, you will see there are certain entities which have contributed. Of course, Rinder has performed close to 10% EBITDA in this quarter. Having said that, there are

other entities like Minda Kosei which have even higher EBITDA multiple of close to 16-17% and MJCL with 14.5%. So at console level, we have seen Clarton also move up to 8% EBITDA. So, all these things put together have boosted the results on the console basis.

Basudev Banerjee: And broadly most of them are sustainable figures?

Sudhir Jain: Yes, we hope so.

Basudev Banerjee: And when is the Clarton Mexico getting operational?

Sudhir Jain: One line is already operational as at April this year.

Basudev Banerjee: And the other one?

Sudhir Jain: Other one should be operational by end of 2016-2017.

Basudev Banerjee: Sudhir sir, to get a better visibility as you have said that from group entities you will be transferring many other entities to include in your console revenue, so as of now which are the pending large ones to get a better visibility for your console revenue in next two years' time, I hope Mindarika might be one of them?

Sudhir Jain: Yes, one of them could be Mindarika. So still few entities are there which have yet not been decided to be consolidated, but we are in the process of working on that and we also need to take our partners in confidence so that process is going on. But I feel Mindarika is among that which can fructify in coming quarters.

Basudev Banerjee: And one cannot get visibility regarding any other entity as such?

Sudhir Jain: Other entities, one is MI Torica which is also possible, I mean we are working on that. As far as Fujitsu Ten Minda is concerned, I think for that we have yet to decide but having said that our internal target of Kosei is to consolidate all group companies on or before March 2018, but as of now also 80% of the group turnover is captured now in Minda Industry is consolidated particularly by Q4 once Roki Minda has already been done but the impact will come in Q3. Similarly, ASEAN, PT Minda, Vietnam we have already decided in yesterdays Board meeting to acquire balance 49% shares. So, in all likelihood that will also be executed by Q4. So, definitely from April 1, which is Q1 of the next financial year, 80%-85% of the group would be under Minda Industries Limited and the next target is Mindarika and MI Torica.

Basudev Banerjee: But sir, Roki is 49% stake so, would not that be as income from associate down the line?

Sudhir Jain: Yes, as per IndAS, you are right. But anyway in IndAS, they have got their own definitions of associate and joint ventures but on the apparently yes, it would be an associate company.

- Basudev Banerjee:** And any plans to **increase stake**, taking Roki to 51%?
- Sudhir Jain:** No, as of now there is no such move to increase the equity in Roki Minda.
- Basudev Banerjee:** And sir, the growth Mr. Tripurari sir said that 12% switch, 28% light and 23% acoustic, those are all standalone level growth segment?
- Sudhir Jain:** Yes.
- Moderator:** Thank you. We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Sir, first question regarding the EBITDA margins, they have improved to double digit this quarter, can we take this since second half is normally little better than the first half. So for the full year, we should see further improvement in EBITDA margin?
- Sudhir Jain:** Firstly yes, we are hopeful that the second half would be better than the first now and next will be EBITDA margin should improve to what extent, very difficult to say but definitely it should be in double digit.
- Sachin Kasera:** Secondly sir, not as a guidance but you have mentioned that if things go well this year post consolidation of Rinder, we could look at turnover of around 3,500 crores for FY17, so we already done 1,700 crores in the first half so and with what consolidation coming in, we can look forward to crossing that 3,500 crores for the full year?
- Sudhir Jain:** I think definitely we will cross 3300 crores assuming normal growth and market conditions in the remaining two quarters.
- Sachin Kasera:** Secondly sir, this interest cost because of the acquisitions has gone up from 13 crores to 23 crores in the first half. How do you see that panning out in the second half in the next year, do you see it coming down or it will remain at this elevated levels?
- Sudhir Jain:** Yes, in absolute terms there is increase in the interest cost and this is partly due to acquisition also and mergers of different entities including for example Minda Kosei, Rinder and others. But having said that even after full consolidation, our debt-to-equity ratio is about 0.9% so it is less than 1. Internally, we are taking steps on two counts, first is how to reduce the cost of fund, cost means interest cost itself. As you know our credit rating has improved and we are in touch with our lenders to reduce and give the benefit of improved rating. From some we have just received, from others we are waiting. Second is how to reduce the quantum of loan into the group, so that also we are taking necessary steps by way of controlling working capital as well as CAPEX.

Sachin Kasera: So as per the reported balance sheet, our debt is close to around 500 plus crores, I am not having the number in the other current liabilities. So, you see some reduction in the second half from the current level, sir?

Sudhir Jain: It should not increase, let me tell you.

Sachin Kasera: And regarding this interest cost sir, what would today be the weighted average cost of interest and what is the type of benefit we can have because of the improved credit ratings on that?

Sudhir Jain: Today it should be 10% plus, I means 10.5%, 10.7% and we are looking at 0.25% to 0.5% reduction overall. Recently, we came out with the commercial paper also 30 crores we have raised which has been availed now recently with the impact will come into the current quarter which is Q3. 30 crores we have raised through commercial papers at 7%. So this will also go to reduce the weighted average interest cost.

Sachin Kasera: Sir, can we not look to increase the quantum of commercial paper as far as the working capital is concerned?

Sudhir Jain: We are working on that also and some other funds also, we are looking at, so target is to reduce this 10.6-10.7 to below 10% and hopefully we should be successful.

Sachin Kasera: And sir second question was regarding the indication is Rinder, how it has progressed and is it now as per our expectations or you still see improvement in terms of the revenue and EBITDA margin at Rinder?

Sudhir Jain: Firstly, let me tell you, we acquired this company on June 3 and after that we entered into the company, I mean, we have taken full control of the management here also in Spain and there are no surprises, our team along with the existing Rinder employees are working very well, routine work. We had two board meetings of the company also after acquisition, so that way good team is in place, good products are in place and now we are working in this company how to improve further productivity as well as to manage cost and through integration with our existing lighting division, cost is impacted that will also come in the coming quarters if not in Q2-Q3 then definitely from Q4 onward.

Sachin Kasera: We also see some improvement in turnover from the current run rate of 100 crores in this quarter in the end sir as we move forward?

Sudhir Jain: Let me tell you, immediately our focus is to improve the bottom line because we should have the benefits of synergy with our operation, existing lighting operations, but yes we are getting new orders even in Rinder and its top-line will also increase.

Sachin Kasera: My last question regarding the battery business sir, do we have more clarity now because you had mentioned that may be by next quarter you will be able to give some more clarity how do we want to take the business forward post the exit of Panasonic?

Sudhir Jain: During last quarter we acquired 100% equity from Panasonic and now this particular company which was Panasonic Minda Storage Batteries which is now Minda Storage Batteries is we are managing that company along with our two-wheeler battery division. Two-wheeler plants are as they were earlier. As far as four-wheeler battery is concerned or this four wheeler and industrial batteries are concerned, exact clarity will come by Q4, but things are as per our plan and strategy and some specifics hopefully I would be able to share in Q4.

Sachin Kasera: So, has the plant started production sir now, the battery plant?

Sudhir Jain: Actually, as per the plant, three types of trial runs are required. First trial runs are over and accepted and everything is fine, so second and third trial runs are going on.

Sachin Kasera: So, most likely the commercial production will take another two-three months to start?

Sudhir Jain: It will take, it could be in Q4 or may be from April onward.

Sachin Kasera: And sir the business that we have secured from some of the two-wheelers that should be able to suffice what type of capacity, what percentage of capacity will be absorbed by the business that we have won from two wheelers?

Sudhir Jain: You are referring to battery two wheeler?

Sachin Kasera: Yes, battery two wheeler, we have received, you said in terms of accruals so, what percentage of the CAPEX...

Sudhir Jain: As far as battery two wheelers is concerned, we are mainly focusing on after market and expanding our reach in the after-market. This quarter, there was a slight setback as far as numbers are concerned but I think we would be in a position to ramp up in Q3 and Q4.

Sachin Kasera: But have you got any approvals from one of the majors say like, Hero or HMSI or anyone....?

Sudhir Jain: Let me tell you so far for batteries we have not approached OEMs. Just to recollect, initially in 2008 and 2009, we started this battery two wheeler and we started with OEMs and then we focussed on after-market. And the learning after that was that it should have been other way round. Batteries as a product that it has got a very high replacement market and that is why I think three years ago, four years ago, we changed our strategy and we decided to only focus in after-market and since that we are following that strategy. My personal feeling is that still for one or two years we should focus on after-market only and then look for OEMs.

Sachin Kasera: And sir, you are also looking at getting a new technology partner, so any progress on that in the battery business?

Sudhir Jain: Yes, so we are in touch with few, very preliminary discussions have been there because as I said only September end we acquired Panasonic equity stake, so from October we have started discussions and this process will take 3-4 months before we reach a particular stage of discussions and finalization.

Moderator: Thank you. We have the next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Actually my question is that we have mentioned in the press release yesterday that we are going to raise about 500 crores for consolidation of the group entities and for working capital, so firstly I just wanted to understand that whether this will be purely in the form of fresh issue of capital or would there be also a debt component in that could be my first question?

Sudhir Jain: Let me tell you in the board meeting we have taken an enabling provision to raise this kind of a money and the basic requirement of this fund is coming, one from our consolidation exercise which is going on, more than two-third of the companies we have already brought under Minda Industries Limited, still there are two-three products which are outside, so partly money is required and second is that some money would be required for working capital also and will go towards reducing our interest cost. Now, exact sourcing and breakup of the fund we have yet to work out. Yesterday, the board has approved, we will take up this resolution through ballot to the shareholders, that process will continue. Parallely, now we will start our internal working about the possible nature of the source whether it should be debt or equity, how much equity or debt so that we will decide in due course and the exact amount also, of course within 500 so that it is 300 or 400 depending upon the next 12 months need.

Bharat Gianani: But sir, any rough indication you can give, normally we do an any new project thing, so we normally assume 1:1 debt to equity, so if you could assume that if you require so let say, 400 or 500 crores we should be raising that 250 through debt and 250 through equity, just as the broad indication I am asking?

Sudhir Jain: In case, I think first 300 and 350 crores should be from equity. In case we go above that, may be debt but it is a question mark, Yes, but I think first 300-350 should be through equity.

Bharat Gianani: And roughly how much of this amount of 500 crores would be towards consolidation, I guess majority of about 350 crores to 400 crores towards consolidation and this would be towards working capital and reducing interest cost, is that assessment right?

Sudhir Jain: No, I will say within 200 should be through this consolidation, about 200 crores and rest would be for this reducing interest as well as further funding requirement.

Bharat Gianani: But sir working capital traditionally, is this because of some new entities that we have consolidated so the working capital requirement has gone up because otherwise I think working capital is pretty much under control, so anything if you want to highlight, any one particular consolidation that you have done which has increased the working capital requirement or just if you can shed some light on that?

Sudhir Jain: No, firstly the new products which we added in last 12 to 18 months which is alloy wheel in Kosei in North and then of course Rinder lighting additional capacity plus there is a normal expansion in some of the other plants also. With this additional capacity is there and as we will improve the capacity utilization there would be some additional working capital requirements. So, it would be mainly because of the additional capacity already created and further working capital required to meet that capacity utilization.

Bharat Gianani: So as in working capital days as on number of thing will not go up, right.

Sudhir Jain: No, it is not rather to tighten the working capital cycle further, definitely should not be towards increasing the working capital cycle.

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

Mahesh Bendre: In your opening remark, you mentioned that the group is going through a restructuring process, quite many entities you have been added into the Minda industries, so over a what period of time going forward this restructuring process will be completed and how many more entities you are expected to be get added?

Sudhir Jain: Yes, so this restructuring is basically focussed on consolidation, so all these entities who are there through investment in those entities or not necessarily from Minda Industries Limited. Having said that, our internal target is to complete this exercise on or before March 2018. Up to March 2017, two-third of the entities would already would be under MIL, main entities. Entities which are not still under Minda Industries Limited, fully Mindarika Private Limited which is into four-wheeler switches is not fully under MIL, only part of the equity is through Minda Industries. MI Torica is not under, so there are still four or five companies which are not part of Minda Industries Limited.

Mahesh Bendre: So, going forward are there any possibility, those getting merged into Minda Industries?

Sudhir Jain: Yes we are working on that and idea is not to merge it, the idea is to transfer the equity to Minda Industries limited, they will continue to be as a separate legal entity but as either associate or subsidiary or 50-50 company of Minda Industries Limited. There are one or two entities within these four, five companies where our group stake is very less as of now. So that we have to decide, I mean less than 10% in two companies whether even to bring those companies under

MIL or we wait for once we increase equity into those companies, even both those companies we have got a right to increase equity percentage.

Maresh Bendre: And sir, in also opening remark you have mentioned that the demonetization activity that is going on currently in the country will have some impact, I mean it seems that all the auto companies, auto OEMs and auto ancillaries are going to have some impact of these particular, in fact value chain will get altered for a few months, so in your opinion do you think this activity will be limited only for third quarter or this can spread too further enough into FY18?

Sudhir Jain: This action of the government on demonetizing notes on the currency actually is a very big action and it will have an impact on the economy but only in the short term. Now whether the impact would be over in one quarter is very difficult to predict and estimate at least I won't venture into that, but my feeling is that what I am just assuming that once the new currencies is in circulation and with the people, so basic purchasing power would be with them to meet their essential requirements including auto buying. So if impact should taper down in Q4 of this year, so maximum Q3-Q4 can be affected because of this, to what extent very difficult to say.

Maresh Bendre: But sir, which part of these markets might get impacted, is it two wheeler market or is it four wheeler that will have a more influence because of this?

Sudhir Jain: Again, it depends on the market segment whether it is urban, whether it is rural and all those things and in case I go by, may be very difficult to say, two wheeler or four wheeler and to what extent, overall it will have some impact but not a major impact.

Moderator: Thank you. We have the next question from the line of Bobby Jayaraman from Falcon Investments. Please go ahead.

Bobby Jayaraman: My question is rather fundamental, your EBITDA margins are around 10%, so I am equating this to the level of technology in your component, sir how technologically intensive your component compared to say Bharat Forge which has the margin 25%. So what is really the barrier to increase your business for these components that you manufacture?

Sudhir Jain: First, I think the type of components in which we are which is auto switches, lamps, horns, alloy wheels, aluminium die casting components, glow moulding parts, infotainment systems etc., the category is quite different from the Bharat Forge and our is a different way, rightly different types of components we make. Now why vis-à-vis Bharat Forge and for that matter may be some other company, the EBITDA margin seems low 10% plus is also because of this effect and is mainly because of the effect that, different components we have added into the product basket in the recent past. There are certain products which are our original products from where we started and initially we added switches, lamps and horns. Their EBITDA margins is better than 10%, certain products which we added 3-4 years ago their EBITDA margins would be in the range of 4%-5%, there could be one or two products which we started recently where EBITDA could be zero or 1%. So, when we say 10.5% or whatever, these are EBITDA margin, actually

this is the weighted average of the EBITDA margins of the complete product basket. Having said that, as other products will also mature in terms of age, in terms of volume, EBITDA margin in those products will also increase and in case I compare my EBITDA margin of this quarter with say 2 years from now in the past, there is quite a good decent improvement in EBITDA margin because in certain products where we were very low, because we entered, we were in those products only for a year or two, two years ago. EBITDA margin has improved in this quarter. As far as technology is concerned, in most of our products there is a technology and it is not a simple case of pure manufacturing and assembly. Most of these products are electrical, mechanical and now electronics. A lot of electronics is going in to switches. Even in horn, there is an electronic horn, earlier there used to be a simple electric or normal horn, this horn, so electronics is also going into number of these products.

Bobby Jayaraman: The followup would be as you say you have been expanding into a lot of products, right? You started off with switches and horns and you have been going into a lot of products. So what is the return on invested capital that you target internally because it is always easy to increase revenues, but what is the return you are targeting in the internal capital you invest?

Sudhir Jain: Our internal target is to cross 25% on return on capital employed and if I am not wrong, last year based on March 16 consolidated results, our return on capital employed is 18.5% and the target is to take it to 25% which is feasible. I mean, it is not a dream or something like that. It can be achieved and should be achieved.

Bobby Jayaraman: Okay, so when you decided to expand say on rubber or batteries, you internally target return on capital just do not expand for the sake of expansion?

Sudhir Jain: Definitely not. Let me tell you, within the group there are certain mandatory norms which new project report and project should achieve in a given period of time which is about 6 years' time and every year after setup, what kind of return that project should give both in terms of profitability which is PBT at grossly needs to be achieved as well as share of business or market share in that particular product. Having said that, there is a complete lay down internal product selection system and procedure which has to be filtered by various bodies within the organization at 2-3 levels. I will take latest example of alloy wheels. In India till today, majority of the vehicles are on steel wheels. Since last 3-4 years because of various advantage of having alloy wheels, OEMs were looking for good supplier. Most of the alloy wheels were coming from outside India and we identified this one product and penetration of this product is increasing day by day and that is why we added this particular product which is fortunately doing very good.

Bobby Jayaraman: I understand, but do you have the feeling internally that maxed out on your core product switches and horns and lighting or is there more market share you can gain there?

Sudhir Jain: In switches, yes it is difficult to get more market share. Already we are number one and we are enjoying almost 65%-70% market share. But having said that, let me tell you the technology is moving very fast in switches and we are ahead of that curve. We are the one who are bringing

latest technology, improved technology in switches. So may be our market share is already at a 65%-70% stake, but we can add lot of value through technology and overall sales in value terms can increase and is increasing. As far as lighting is concerned, in case you see the last 3 years trend, consistently our share of business with OEMs as well as overall market share is improving in lighting, the latest being the Rinder acquisition, the very fact that we acquired Rinder was to add capacity. So in lighting, we have moved already and they still scope for improvement in market share in lighting. Next is the horn. In horn also, you see last 2-3 years our market share has increased in India as well as outside India. So it is a mix, improving market share as well as bringing new technology. It will give you additional revenue and margin.

Bobby Jayaraman: Final question, how are you positioned towards electric and hybrid vehicles possibly the future technologies?

Sudhir Jain: I think very interesting question and hybrid vehicles, electric vehicles are on the horizon. Let me tell you in our group we have got a separate engineering setup, separate technology department headed by CTO who is constantly in look for new technologies coming, not only in existing vehicles, but also the new technologies in the new vehicles like electric and hybrid. So these vehicles have been studied, components of these vehicles, vehicles are also studied and there is an internal roadmap to how to take these components also forward, but then we have to calibrate our speed with that of the weakened introduction in the country. See over a period of say next 3-5 years or 10 years how the electric vehicles and hybrid vehicles production will increase and move into the country. So that we calibrate internally with OEMs of course, OEM projects. So separate team is working on that and as and when we decide that volumes are coming and the vehicle is.... I am sure we would be fully prepared before that.

Moderator: Thank you. We have the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir what kind of volume you did in alloy wheel segment in this quarter?

Sudhir Jain: In terms of value, it is 44 crores and we ramped up from 30,000 capacity production to 60,000 and last number this number could be around 52,000 wheels per month.

Tripurari Kumar: This we set up originally the plan for 30,000 numbers per month. Already we have ramped it up to 60,000 and we started commercial production in April and in the month of last month which is September-October, we are doing 55,000 wheels per month.

Dhananjay Mishra: First month of sales came in July, 30,000, right?

Sudhir Jain: No, in April.

Tripurari Kumar: In April 20, we got the plant commissioned, so April 2016. So now it has been 5 months of production.

- Dhananjay Mishra:** So in 3 months of the Q2, what kind of volume we did for this 44 crores value I am asking?
- Sudhir Jain:** On an average, you can take around 40,000-45,000.
- Dhananjay Mishra:** So about 1.2 lakhs, right?
- Sudhir Jain:** In 3 months, yes.
- Dhananjay Mishra:** So per unit wheel cost would be about 3,500?
- Sudhir Jain:** It depends on vehicle also.
- Tripurari Kumar:** 3,500-4,000 per wheel.
- Dhananjay Mishra:** Because we are supplying to passenger vehicles, right? And we are supplying to whom, as of now we are supplying to M&M, right?
- Tripurari Kumar:** Mahindra and Mahindra and Maruti. Maruti is a bigger customer.
- Sudhir Jain:** More than 70% of our production is going to Maruti, rather 80% and balance is to Mahindra and Mahindra.
- Dhananjay Mishra:** So as of now we are supplying to both Maruti and Mahindra and Mahindra and when we ramp up the capacity to this 120, so in FY18 what kind of volume we are expecting?
- Tripurari Kumar:** Look, the capacity expansion which is for 120 will happen in FY17-18. So you will see something like a 90,000 capacity operation for the next year.
- Dhananjay Mishra:** So this year we will do, if you take an average of 50,000-55,000, so annual run rate would be about 5 lakhs and next year we could do about 8-9 lakhs in terms of volume and we can take a realization of about 3,500 in my number?
- Tripurari Kumar:** Approximately yes, it depends on vehicles of lower dimension, the wheel weight is almost 7.5 kg, for SUV type vehicle, it is almost 9 kg. So it will depend on the mix, but on an average you can take it half kg wheel weight. So around 3,200 should be a good price point.
- Dhananjay Mishra:** Because your other competitor is selling about at Rs. 2,400, that is what I am asking because prices there is dispensed.
- Tripurari Kumar:** It will be also higher.
- Dhananjay Mishra:** And what kind of margin are you expecting in this business 16% you said right?
- Tripurari Kumar:** This quarter, we have done close to 16%.

- Dhananjay Mishra:** And that margin will be maintained.
- Tripurari Kumar:** We hope so.
- Dhananjay Mishra:** And in this Rinder India, we already reached to about 100 crores in this quarter, so this run rate will continue and what kind of growth we are expecting for next year?
- Tripurari Kumar:** Last year if you recall the full year sales for Rinder was around 360 odd crores. So given the fact that we will be consolidating the company for slightly less than 10 months, this number should be close to the same number as we did last year.
- Dhananjay Mishra:** 360 crores right? I am asking for next year FY18.
- Tripurari Kumar:** There should be a growth of 10%-15%.
- Moderator:** Thank you. We have the next question from the line of Sachin Kasera from Lucky Investments. Please go ahead.
- Sachin Kasera:** Just a followup on the previous question by participants regarding this fund raising. Sir I did not exactly understand the purpose because as you mentioned that we are not able to raise money itself at 7%-8% in commercial paper, I cannot understand the logic of raising equity and reducing the debt at 7% debt and secondly you mentioned that around 350 crores will be equity of it and 200 crores will be for buying out the stake in the group company, is that understanding correct if you can answer these two queries.
- Sudhir Jain:** First on this CP because there is I think about 400 crores plus debt in the books, so 30 crores is a very small amount less than 10%. So there is still debt in the books, the cost of which is 10.5% I mentioned in other question which we are trying to reduce it by either 0.25-2.5%, 50 basis points. So still it would be around 10%. So having said that, so there is a good scope for reducing it further and one of the source could be this additional fund raising to reduce the cost. So we will evaluate all options as Sachin you have mentioned and we will see what is the best mix, but we feel if need, definitely we should go for funding and equity increase and overall cost of capital in that process we will reduce.
- Sachin Kasera:** Sorry to interrupt, even if you take 10% and you know what debt equity as you mentioned in the remarks is around 0.9%, anywhere the debt equity is not high. So unnecessarily raising equity will dilute the returns of the shareholders. So I am not pretty sure, my suggestion would be if you could just evaluate.
- Sudhir Jain:** Definitely, we will evaluate, good advice. We will give it a second thought.

- Sachin Kasera:** And sir regarding this, you mentioned that 200 crores of this equity may be used to buy the stake from the group companies, the group company stake, is that what you are mentioning or is there some understanding?
- Sudhir Jain:** No, it is about 200 crores, you are right. Recently, we acquired Roki 49% equity, we have to acquire 49% equity of PT Minda also plus of course 2-3 other companies, for that we would be requiring about 200 crores.
- Sachin Kasera:** And if you could just give us a ballpark number, this 200 crores of investment in the group companies could yield what type of proportionate increase to the profitability to the Minda Industries, a very ballpark number, not a very specific number?
- Sudhir Jain:** I think which we will ensure that our ROCE, return on capital after this acquisition and the kind of fund raising should be above 20%, already we are at 18%-18.5%, so we are working to improve it, it cannot be below 20% return on equity.
- Sachin Kasera:** My last question is regarding the return capital, it is like you had mentioned that you are internally targeting 25%. So if you could just tell us, is there some timeframe that you are looking next 1 year, next 3-4 years because 18-25 is a very steep target that we are looking to achieve?
- Sudhir Jain:** I think it will take 3 years, this is it will take some time.
- Sachin Kasera:** So we can maybe say 150-200 basis points improvement every year what we should aspire to look at?
- Tripurari Kumar:** This year also, we should move from 18.5 last year to 20 plus number on a full year basis.
- Sachin Kasera:** So when you are saying three year mean by FY19, we would hope to achieve say 25% that would internally the aspiration.
- Sudhir Jain:** Not 20, we are sitting in 16, 17, 18, 19, yes.
- Sachin Kasera:** And sir just one last suggestion regarding presentation, earlier you used to give the division wise sales in EBITDA margins and aftermarket revenue and all, I can finding that missing in the current investor presentation.
- Sudhir Jain:** Okay, I think you are right. I also saw it.
- Sachin Kasera:** So request if you could because we have so many segment and so many companies, it will be easy for us to understand.
- Sudhir Jain:** Sure, I think we will do it.

- Moderator:** Thank you. We have the next question from the line of Prayesh Jain from IIFL. Please go ahead.
- Prayesh Jain:** Sir one question on this alloy wheels, what is the share of business of Maruti right now that we have?
- Tripurari Kumar:** Till the last quarter, I think the entire volume went to Maruti only and only the beginning of this quarter, we have started sales to one or two models of Mahindra and Mahindra.
- Prayesh Jain:** My question is pertaining to what is the share of business with Maruti in the sense that what is Maruti's demand and how much are we supplying to Maruti?
- Sudhir Jain:** For alloy wheel?
- Tripurari Kumar:** We are supplying to close to 20% of the entire requirement as of now and this only is currently we supplying to Brezza and Baleno.
- Prayesh Jain:** Are you in talks for the models as well?
- Sudhir Jain:** Yes, for all new models, we are in discussion with them.
- Prayesh Jain:** And sir do you see alloy wheels as a percentage of the number of cars that use alloy wheels right now to increase substantially in the next 3-5 years or what would be the mix right now and what would be your vision on that increasing?
- Sudhir Jain:** Yes, about 18%-19% is the alloy wheel penetration as of now which we hope we will increase to 45% in 3-5 years' time. All new models and particularly higher end models which OEMs are introducing into the country plus 100% export vehicles would be with alloy wheels.
- Prayesh Jain:** And how do we source the raw material for this alloy wheel, is it imported or is it domestically sourced?
- Sudhir Jain:** We source both way. We are in touch with international suppliers, LME quotations and the case by case we decide and this is a special alloy. So the sources are of course limited and our partner Kosei, Kosei has got plants in different countries of course Japan, Thailand and other countries. So they have also got international sourcing for all the plants and with their support, we source it for our Indian plants also.
- Prayesh Jain:** And sir are we in talks with other OEMs for business in terms of this alloy wheels?
- Sudhir Jain:** Frankly speaking, as of now there is so much demand from Maruti as well as Mahindra that we are working to meet their demands, but yes we are in touch with other OEMs also. As in the earlier question, we mentioned already we have taken a decision to increase this capacity from 90,000 to 120,000 which would be in place in the next financial year.

- Prayesh Jain:** And sir this agreement does not restrict us from supplying to any players right or exported?
- Sudhir Jain:** Which agreement, agreement with Kosei?
- Prayesh Jain:** Yes.
- Sudhir Jain:** Yes, there is understanding between the two partners, how we will supply to which customers and exports also, but that understanding has been then keeping in view the interest of both the plants, both North as well as South plants. Boards are common as I mentioned earlier also, for both the companies, boards are common, senior executives are common. So all these operations are run as one plant.
- Prayesh Jain:** And sir my last question would be, I think you said 3,300 crores of consolidated revenue this year?
- Sudhir Jain:** Yes, I think we should reach 3,300 or so.
- Prayesh Jain:** And this you are saying will reach something like, what is the target for next 3 years on this?
- Sudhir Jain:** I think as I have earlier also mentioned there is a sector growth. For example, in this quarter, it is 12%, so our growth in the top-line is higher than the sector growth and you can take 1.5 times of the sector growth.
- Moderator:** Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** On the Panasonic battery side, what is the P&L of that company? Is it making a loss?
- Sudhir Jain:** Panasonic batteries, earlier I mentioned is still in the stage of setup. Commercial production has not started. Trial runs have been taken. First trial runs have been approved by the Panasonic before we took over the plant from Panasonic. Now, second and third trial runs are going on. Having said that, P&L for this should be almost breakeven because it is also earnings on interest on surplus funds. So I do not see it would be at least up to March 16 incurring any loss.
- Pritesh Chheda:** And my second question is so Minda Casting and Rinder, if I just see what has been reported in the quarter, the PBT margins seem to be far lesser than what you had initially indicated at the time of quarter 1 and quarter 4, so any thoughts there because those two companies..
- Tripurari Kumar:** Which of these entities you said?
- Pritesh Chheda:** Rinder and Minda Casting.

- Tripurari Kumar:** Rinder India, last year when we acquired the company, they were around 8% EBITDA and we have concluded this quarter at almost 9.9% EBITDA margins.
- Pritesh Chheda:** So sir, we have a PBT number and initially you talked about PBT margins?
- Tripurari Kumar:** There is a debt that has been taken in the books, that is why EBITDA number could be close to 18.
- Pritesh Chheda:** So Rinder PBT that was shared earlier was about some 6%-7%, what is getting reported is 3, so is there any deviation?
- Sudhir Jain:** 6-7% PAT number.
- Pritesh Chheda:** Sir percentage?
- Tripurari Kumar:** I will come back to that; I think we are not on the same page on that because we rather hoping that this EBITDA margin will go up by around 2%. So last year they did 8 and this year that number should be around 10%.
- Sudhir Jain:** I think we will recheck and we will get back.
- Pritesh Chheda:** MI Casting and Minda Rinder if you could recheck and get back.
- Sudhir Jain:** We will get back to you.
- Moderator:** Thank you. We have the next question from the line of Pankaj Bobade from Axis Securities. Please go ahead.
- Pankaj Bobade:** In answer to earlier question, you mentioned that our alloy wheel capacity would be increased from 90,000 to one lakh 20,000, so when are we planning to for this rise in capacity?
- Tripurari Kumar:** This should be done towards quarter 2 and quarter 3 of next year. From then on, the production will start.
- Pankaj Bobade:** H2 FY18?
- Tripurari Kumar:** Yes, it should be in the beginning of H2 FY18.
- Pankaj Bobade:** So currently, it is 60,000 per month, right?
- Tripurari Kumar:** Yes, and we are in process of ramping up the capacity to 90,000 which should be operational by April to June in that quarter.

- Pankaj Bobade:** By Q1 FY18 and then from 90 to 120 by H2 FY18, so by end of FY18 we will be having 120,000 per month?
- Tripurari Kumar:** You are right.
- Pankaj Bobade:** Sir in addition to that, you also mentioned about fund raising plans, so can you please throw more light on the same?
- Tripurari Kumar:** No, the resolution that we have taken and got the board approval for enabling resolution and as sir has explained, this is more to undertake the consolidation exercise that we are undertaking, so which will involve capital requirement of more than 200 crores. So that is the primary requirement and secondary wherever we are going to be expanding, so wherever it is required, that will be used, but as explained earlier, this is more of an enabling resolution that we have taken and it is not immediately in fact.
- Pankaj Bobade:** And no timeline as such?
- Tripurari Kumar:** No, absolutely not.
- Pankaj Bobade:** And sir currently we have reached 10% plus of EBTDA margins for this quarter and we have a target of reaching 12%, what is the timeline by what we will reach the 12% plus of the EBITDA margin?
- Tripurari Kumar:** We have improved from 9.5% on a full year basis last year and we hope that this year will be around 10.5 and then this year onwards you can look at incremental increase of 1% per annum.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Sudhir Jain for closing comments. Thank you and over to you sir.
- Sudhir Jain:** Dear investors, thank you very much for participating, sparing your time and few very good suggestions which we will take into account particularly with reference to fund raising, cost of capital and with these remarks, few cases we mentioned that we will get back to you. With these remarks, I would like to close this conference. Thank you very much once again. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Minda Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.