

## Annexure - H to Board's Report

### Management Discussion and Analysis

#### Global Economy

The projection for global growth in 2016 is a modest 3.2 percent, broadly in line with last year. Major macroeconomic realignments are affecting the growth prospects which include the slowdown and rebalancing in China, BREXIT referendum, decline in commodity prices-especially for oil, a related slowdown in investment and trade and declining capital flows to emerging market and developing economies. The geopolitical tensions and discords in the Middle-East countries ensured that prices remained subdued.



US clocked a growth of 2.4 % with subdued growth in 4th quarter at 1.4%, despite the employment data showing considerable improvement year on year. China reported its 25year low GDP growth of 6.9% in 2015-16, as the Chinese economy is currently rebalancing itself with manufacturing taking a backseat to consumption and services. Japan has been witnessing slowdown in private consumption and EU is seeing uneven patches of growth with Spain emerging stronger. Growth in ASEAN region is expected to be 4.8% in 2016.

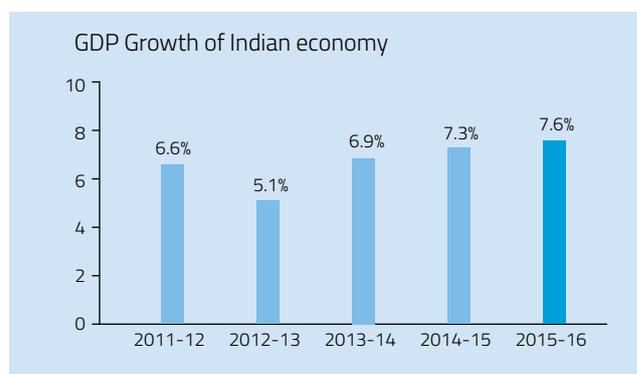
The global economy is estimated to grow at 3.5% in the year 2017, backed by green shoots of recovery, and will further strengthen from 2018 onwards. Recovery will be led by the emerging and developing economies. (Source: IMF- World Economic Outlook, January/April 2016)

#### Indian Economy

The new government, which assumed office in May 2014, has been aiming to propel GDP growth to the next trajectory. In the FY2016, Indian Economy recorded a growth of 7.6%,

demonstrating signs of steady recovery. Major macroeconomic factors backed by various government initiatives have been driving the growth. World Economic Outlook has predicted that India will be the fastest growing economy in the world in 2016-17 growing at the rate of 7.5%.

According to Goldman Sachs report released in September 2015, India could grow at a potential 8 per cent on an average during fiscal 2016 to 2020 powered by greater access to banking, technology adoption, urbanization and other structural reforms.



India imports 84.9% of the fuel requirements as domestic discoveries are few and far between. This could lead to expansion of current account deficit, once international crude prices witness revival.

Sound fundamentals of the Indian economy - fiscal deficit, Inflation and measured reductions in the policy rates will ensure smooth transition to next phase of growth. Furthermore, initiatives like 'Make in India' and 'Digital India' will play a vital role in driving the Indian economy. Certain sectors are seeing upsurge in investments backed by relaxation of FDI limits further.

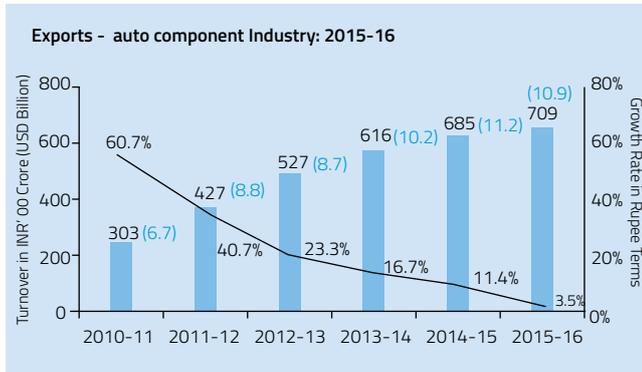
In the manufacturing sector, the automobiles sector registered a growth of 5.8% during FY2015-16. (Source: Ministry of Statistics and Programme Implementation)

#### Industry Overview

##### Auto Components Sector

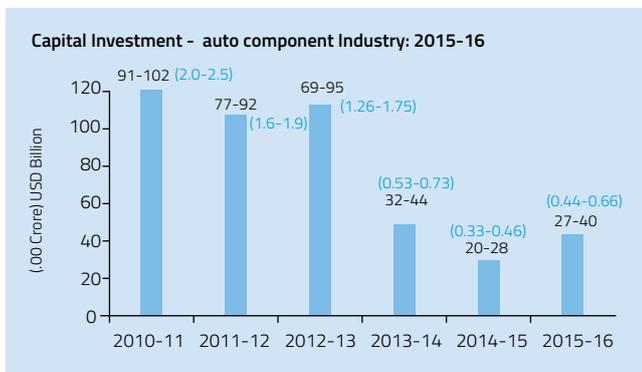
As per SIAM, the vehicle growth for 2016 was around 4% in the domestic market with three wheeler and tractors segment witnessing sluggish growth.

As per ACMA, Indian Auto Components Industry grew by 8.8% to a turnover USD 39 bn in 2016. Exports accounted for USD 10.8 bn of the total turnover in 2016. The auto component sector contributes about 7% of India’s GDP and is among the largest employers in the economy. Original Equipment’s (OE) sales constitutes 54%, while replacement and exports comprise 17% and 29% of the revenue mix.



Major export markets for the Indian Auto Component Industry are the US, EU, ASEAN region which are showing pick- up in demand.

Enthusied with Success of Automotive Mission Plan (AMP) 2006-2016, government has planned to work on similar project for the next 10 years, i.e. AMP 2016-2026 with focus on exports of specific vehicles such as MUV’s, small cars, two and three wheeler vehicles as well as auto components.



**Growth Drivers**

- **Make in India & Rebalancing of Chinese Economy:** Government has taken various initiatives to minimize the red tape and has opened up the sector fully to overseas players. Ease of doing business in India coupled with rebalancing of Chinese economy could strengthen the position of India and enable it to attract higher foreign investments. This could also translate into moving of capacities to India from China, for products which are not as technology intensive. Indian Auto component sector will need to further invest in technology to grasp this opportunity, absence of which could make the sector vulnerable to Chinese imports in the long run.

- **GST Legislation & Government Policies:** Auto component Sector, like many other manufacturing sectors will be a beneficiary of long awaited GST legislation, which will mark the roll out of second generation reforms in India. This will minimize the indirect taxation and limit it to Centre and State GST. In the current regime even stock transfers required taxes to be paid leading to cascading of Tax. Aftermarket segment and exports are likely to become more profitable. The free flow of credits across the supply chain will work well for B2B players ensuring better profitability.

AMP 2016-2026 is being put in place with an objective to make India a Global hub for automotive exports.

- **Favourable Interest Rate Regime:** RBI, from time to time, has eased the policy rates which will enable the banks to lend at lower interest rate. Auto sector is interest rate sensitive sector and will be benefited with softening of rates and various options for financing.

- **Infrastructure Spending:** Infrastructure spending has not really gathered pace over last few years. The central as well as several state governments are focused to improve this but are facing the overhang of NPAs in the banking system and bankruptcy/ financials stress of various companies engaged in developing infrastructure. While small investments are being made for developing newer roads, bridges and highways, the auto component sector will get a major thrust when investments in large projects like smart cities and high Speed corridor are made.

- **Access to Foreign Capital:** The Indian government has approved 100% FDI in the auto components sector. Various companies in Auto-component space have expanded globally through M&A. The sector has good investor interest and in times to come, these companies will leverage their position to raise capital at lower cost and business would become more profitable. India could also become global hub for sourcing of auto components backed by attractiveness of dollars for exports.

- **Investment in technology and R&D spending:** The Indian auto component manufacturing companies are very much dependent on leveraging technology from other countries. Historically, Investments in research and development has been lower resulting in over dependence on foreign technology. This scenario need to be quickly altered as in the long run this will result in the sector being non-competitive.

- **Better than Normal Monsoon & Rural Demand:** Rural households continue to rely on monsoons for a good crop and timely harvest. Two consecutive years of sub-normal monsoon and unseasonal rainfall have affected the income,

resulting in low rural demand. Meteorological estimates indicate that in 2016-17 monsoons will be better than normal. This could mean higher rural income, which would translate into higher demand for automobiles in general and Two-wheelers & Tractors in particular.

- **Demographic Dividends:** 65% of the Indian Population is below the age of 35 and it offers India a huge opportunity in terms of working population. This will increase per capita income which is already ₹1 Lakh as at 2015-16. Higher disposable income and aspiration of owning a vehicle will increase the demand for automobiles. About 18 out of every 1000 people own a car in India, which is insignificant in comparison to 809 out of 1000 in the US, 519 in UK and 101 in China.
- **More Electronics per vehicle:** With increasing competition in the automobile segment, OEM are likely to add more features to their vehicles to enhance comfort and safety. Most of these improvisation will be backed by electronics. With the increase in contents per vehicle, demand for auto components will improve. However, this will require further investment in technology and the sector could witness increase in M&A activities.

## Business Operation Overview

### Lighting Systems Division

Minda Industries Limited (MIL) is a renowned name delivering end to end lighting solutions to OEM's. Activities undertaken are Design, Research and Development, Manufacturing and delivering supply chain solutions at competitive cost. The Company also has comprehensive presence in aftermarket business. MIL produces premium lights for vehicles across the two-wheeler, three-wheeler, four-wheeler segments as well as off-road vehicle segments. Minda Industries is among the leading manufacturers of automobile lamps and signalling devices in India. It has technical license with AMS Co. Ltd, Korea, apart from its in-house engineering wing. The lighting division of MIL operates across four plants, with one each in Pantnagar, Sonapat, Manesar and Pune. The client base of the Company consists of some of the biggest OEM brands in the world like Maruti, Renault Nissan, M&M, Royal Enfield, Yamaha, Tata, Suzuki, Swaraj Mazda, New Holland, to name a few.

In June 2016, Minda Industries limited Acquired global lighting business of Spain Based Rinder group for Euro ~20 Mn. The acquisition will provide the Company with cutting edge lighting technology, backed by extensive R&D centre in Spain. The acquisition will include there facilities in India and one in Spain and Columbia each.

### Switch & Handle Bar Systems Division

MIL is the largest manufacturer of switching System and handle bar solutions for two/three-wheelers in India serving almost

all major OEMs around the world. Apart from manufacturing switches for two-wheelers, the Company also develops switching solutions for three-wheeler and off-road vehicle segments.

The Switching Systems Division of MIL is targeting to be the global leader and most preferred supplier of 2W and off-road vehicle switch Systems. In order to achieve its vision, the Company focuses on developing innovative and cost-effective solution with focus on quality. The switching division of MIL operates through 5 plants across India. Apart from having plants located in India, PTMA & MIVCL, 51% subsidiary of MIL, have manufacturing facility in Indonesia and Vietnam respectively. The marquee customers include Honda Motorcycles, Hero Motocorp, Royal Enfield, Yamaha Motors, and Piaggio among others. A State of the art design office in Japan has been set up to ensure design and development in sync with latest switching solutions.

About 60% of the Company's standalone revenue is generated by the switch division.

### Acoustics Systems Division

The Minda Industries Limited has emerged as India's leading automotive horn manufacturer. The Acoustic Division accounts for 50% of the total market share. The division dedicatedly works on developing and innovating quality products of optimum sound performance and high durability. The Company's acoustic division has manufacturing units at Manesar and Pantnagar. The Company is a preferred supplier to all leading two-wheeler, four-wheeler, off-road and commercial vehicle brands like Maruti Suzuki, Renault Nissan, Hyundai, Tata Motors, Bajaj Auto Ltd, Honda Motorcycles and Scooters, Royal Enfield to name a few.

The Company acquired Clarton Horns S.A.U. in April 2013, which is a leading manufacturer of automotive horns, trumpet horns and disc horns in Spain. With this acquisition, MIL is positioned among top two horn manufacturers in the World. This acquisition has helped the get access to leading European and American OEMs. To cater to American Markets, Clarton Horn has set its footprints in Mexico in 2015.

### Sensors Actuators and Controllers (SAC) Division

SAC or Electronics Division of the Company was set up in 2005, and since then the division has performed well and is a leading supplier to all the OEM's in India. The Company is developing electronic products like Start Stop Sensors, Contact and Non – Contact type Speed Sensors, HID Ballast, TPMS (Tyre Pressure Monitoring System), EAPM (Electronic Accelerator Pedal Module), DC-DC Converter, Head lamp levelling motors, among others.

The division operates from an ultramodern manufacturing facility located at Pune, India. The facility is equipped with state-of-art technology in order to provide the best performance in terms of meeting customer requirements. The electronics division of

the company supplies products to some of the most renowned OEMs namely General Motors, Mahindra, Volvo Eicher, Royal Enfield, Tata, Bajaj and many more.

### Other Products in MIL

MIL also has business divisions which are engaged in production of Batteries for 2 wheelers, fuel cap and CNG/LPG Kits.

MIL is engaged in Aluminum Die Casting Business through its 98% subsidiary MJ Casting P Limited (MJCL). Key products manufactured by MJCL include crankcase covers, magneto covers, Flanges & Cylinders for Air Brakes. Major customers for MJCL are HMT, TVS and Wabco.

MIL is also engaged in business of Blow Moulding components through its 72% subsidiary Minda Kyoraku Limited which manufactures products like AC ducts, EA Pads, Spoilers and washer Bottle etc. Key Customers are Maruti, Renault Nissan and Toyota.

### New Products

MIL has expanded its product portfolio in the last financial year to include Alloy wheel and Brake Hoses & Fuel Hoses.

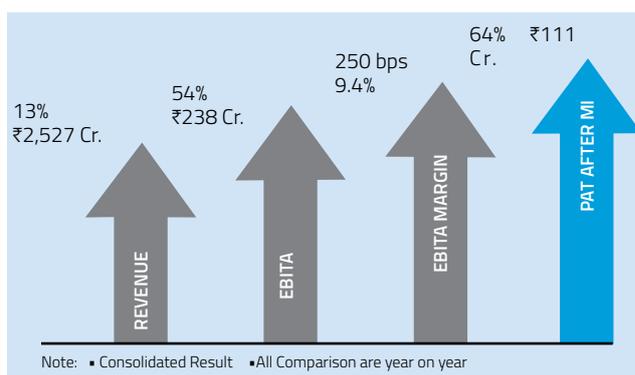
Alloy wheels will be manufactured in Minda Kosei Aluminum Wheel Pvt. Ltd. and Kosei Minda Aluminum Co. Limited. Minda Industries through its holding in the above companies will be largest manufacturer of Alloy wheel in India with capacity in excess of 1.44 Mn wheels per annum. Marquee Customers include Maruti, Toyota, M&M, Honda and Renault Nissan

Brake Hoses and Fuel hoses will be manufactured by Minda TG Rubber P limited, a 51% subsidiary of MIL. It has a capacity of 5.1 Mn Meters and will cater to MSIL and TKML.

### Consolidation

UNO MINDA group has undertaken reorganization of its group structure. Investments will be consolidated under MIL, which is the flagship company of UNO MINDA group. In this regard, in last financial year, MIL acquired following stake/additional stake in the below mentioned companies'

Sl. no	Name of Company	Shareholding of MIL as at 31/03/2016
1	PT Minda ASEAN, Indonesia	51%
2	Minda Industries Vietnam Co Ltd, Vietnam, through SAM Global.	51%
3	Kosei Minda Aluminium Co Ltd.	30%
4	Minda TG Rubber Pvt. limited	51%
5	MJ Casting Pvt. Ltd.	98%



Minda Industries posted robust results for FY16, maintaining its growth momentum. The consolidated sales at ₹2527 Cr. for FY16 as against ₹2232 Cr. in FY15 recording a growth of 13% YOY.

The company reported EBITDA of ₹238Cr, a growth of 54% year on year. EBITDA margin has expanded by 250 basis points to 9.4% for FY16.

PBT (Before Exceptional item) for the consolidated entity grew to ₹134 Cr. for FY16 as against ₹63 Cr. for FY15, growth of 112% year on year.

Profit after Tax and Minority Interest increased by 64% year on year from ₹68Cr in FY15 to ₹111 Cr. in FY16. PAT Margin (after Minority Interest) at 4.43% in FY16 from 3.08% in FY15, an expansion of 135 basis points during the year.

EPS for the company is at ₹69.9 per share during FY16 as compared to ₹42.8 per share in FY15.

This growth has been on account of strong performance of the standalone entity and backed by improved performance of its subsidiaries including turnaround of certain loss making subsidiaries viz., MJ Casting Limited and Minda Kyoraku Limited. Group consolidation has also been an enabler in achieving these numbers.

### Internal Control System

The Company has an effective system of internal controls for financial reporting regarding various transactions, efficiency of operations, safeguarding of assets and compliance with applicable statute and regulations. It has a structured system of audit for reviewing the adequacy of internal control systems. The internal control is well-designed to ensure the reliability in financial and other records for preparing financial information and other data.

The Company also has an exhaustive budgetary monitoring control system. Actual performance is evaluated with reference to budget by the management review committee on an ongoing

basis. Performance with the budgets are analysed regularly and possible remedies are suggested by the management review committee, in consultation with the audit review committee.

The internal audit is carried out by the in-house team as well as by M/s. Protiviti Consulting, internal Auditors of the Company. Their reports are reviewed in the audit committee meeting. Counter measures, if needed are also taken in order to strengthen the internal controls. The suggestions made by internal audit committees are reviewed and considered by audit committees on a quarterly basis for improvement of internal controls and systems within the Group.

### Human Resources

MIL believes that the true potential of a company can only be utilized through maximum employee participation. Our people are our biggest strength and assets. Contributions from the employees act as the key enabler for an organization's success and growth. MIL makes sure that it continues to maintain harmonious relationship with its employees. The organization provides opportunity for growth and career development. MIL has elaborate leadership development programme which ensures that people are ready to undertake higher responsibilities and succession is almost seamless.

In order to keep up with the competition, it is extremely necessary for the workers to stay ahead of the curve. We help our employees to achieve that by offering them several training programs across different skill sets from time to time under the Company's 'Pathshala' initiative. External Training programmes are also imparted to middle/top management to keep them ready for next level of responsibilities.

In order to allow the employees to work parallel to the objectives of the Company and drive its growth, MIL provides adequate training to the fresh recruits. In general, the Company recruits the best talent in the industry and continues motivating them thereby bringing out the best in them. Apart from the new ones, MIL also pays attention to the needs of the existing employees by developing growth prospects. All the new recruits are trained to become socially, professionally and culturally integrated. The Company also follows a robust performance management system to encourage all the employees achieve their targets and perform their responsibilities.

The UNO MINDA group companies have a strong thrust on quality which is achieved through activities like kaizen and quality circle. 5S is being done at every level to improve the productivity and efficiency of the employees. All employees are made aware of and have access to the central database of HR policies covering all aspects of welfare, benefits and administration.

### Outlook

Indian auto component industry is among the few sectors that have a distinct global competitive advantage in terms of cost and quality. UNO MINDA focuses on end to end product solutions for the OEMs, right from product development to manufacturing of reliable products at its state of art manufacturing facilities. The Company also provides aftermarket services at a cost effective price both in India and abroad. UNO MINDA is clearly positioned as a technology leader in various product lines, backed by a strong R&D team and Joint Ventures with leading technology partners across different segments.

Innovation and constant up gradation of products with enhanced features has been the key business strategy for MIL. Indian Automotive market is witnessing an increased participation by the global automotive players. On the other hand, the shortened life cycles of products are opening up bigger opportunities for Indian OEMs to become global players in true sense. It is also an opportunity for India to become a global hub for automotive components. UNO MINDA would seize the opportunities by investing in technology, processes and people to achieve its goal of becoming a leading auto component player in the world.

At Minda Industries Limited, we continuously evaluate our product portfolio and its technology readiness for future, which is essential considering the challenges posed by both emerging and disruptive technologies. The group has presence in CNG / LPG kits understanding the importance of cleaner technology in times to come.

The company has long standing relationship with all OEMs and has been quick to understand their need for development and expansion.