



“Minda Industries Limited Q2 FY-19 Earnings Conference
Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Minda Industries Limited Q2 FY19 Earnings Conference Call. This conference may contain forward-looking statements about the company which are based on believes, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties which 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. Should 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. Sunil Bohra – Group CFO from Minda Industries Limited. Thank you and over to you, sir.

Tripurari Kumar: I am Tripurari Kumar. Very good evening to you. I would like to take the opportunity to introduce you to our new Group CFO, Mr. Sunil Bohra. As you may be aware Mr. Bohra has assumed charge with effect from October 1, 2018. I request Mr. Bohra to take this forward.

Sunil Bohra: Thank you, Tripurari. Good afternoon friends. A very warm welcome to all the participants. On the call today, I am also joined by SGA, our Investor Relations Advisers.

Our Financial Results and Presentation have been uploaded on the stock exchange portals as well as Company website. I hope you all had a chance to view them. I will suggest you have the presentation handy. I will take this opportunity to briefly update you on the industry and give an update on our performance. Following which, we will be happy to answer your queries.

Starting with the sector overview. In fiscal 2019 so far, the auto component industry is expected to grow at around 11% which is as per SIAM estimates over the last fiscal. In the second quarter of 2019, the Two-Wheeler segment grew at 12%, Three-Wheelers grew at 25% and Four-Wheeler passenger vehicles reported robust volume, clocking a growth of 9% year-on-year. Overall, the vehicle volumes grew around 11%.

Accordingly, India's auto component industry is likely to witness healthy growth, backed by adoption of new technologies, composition changes and increase in electronic content. In the near term, the sector is expected to experience measured capacity expansion with healthy utilization.

The key drivers for the sector will be Firstly, adoption of technologies with the advent of BS-VI, primarily in the area of engine designs and emission control. secondly, it will be premiumization, which will be led by LED products, infotainments, advanced driver assistance system, automatic transmission, antilock braking system, electronic control units, sensors etc.

The industry focus on enhancing interior safety, like mandatory front airbags, advanced driver assistance systems and telematics including the intelligent vehicle tracking system. As you may be aware, the notification of making AIS-140 regulation is now mandatory for all public transport and commercial vehicles and has been advanced by 3 months, which is with effect from January 1, 2019.

The auto sector is off late experiencing some light headwinds with divergent growth across its key segments. These are price impact on two-wheelers due to new insurance norms. PV demand as you may know has been a bit subdued over the last two months due to various factors including higher fuel prices, insurance etc, and the pickup is expected on account of festivities, Steep depreciation of Rupee against USD resulting in increased input costs and sub normal monsoon in certain parts of the country. We do see the near term NBFC crisis, which is improving off late, This has actually led to some short-term liquidity tightening and hardening of interest rates. Passenger vehicles especially the ones financed by NBFC may see some short-term impact. However, we strongly believe these are near-term challenges and long-term growth story for the sector and auto component is still intact.

Moving on to the company performance for second quarter of fiscal 2019. In case you have presentation handy, you may refer to slide #4. The company has continued its growth momentum and has posted strong results for second quarter FY19. The consolidated revenue stood at Rs. 1,522 crores for second quarter as against Rs. 1,098 crores in second quarter previous fiscal, recording a growth of 39%.

The revenue in the revenue bridge you will observe that MRPL has been consolidated in the quarter under reference, which has also improved the revenue mix in favor of four-wheel.

Consolidated EBITDA stood at Rs. 189 crores for Q2 FY19 against Rs. 137 crores for Q2 FY18, a growth of 39% year-on-year. EBITDA margin has been flat at 12.4% year-on-year. And the profit before tax for the consolidated entity grew to Rs. 123 crores versus Rs. 96 crores in Q2 of the previous fiscal, registering a growth of 27%.

The PAT share has increased by around 8% to Rs. 73 crores compared to Rs. 67 crores in previous fiscal, resulting into a PAT margin of 5.5% as against 6.1% which is primarily on account of higher depreciation, interest and higher minority share with acquisition of MRPL. It would be appropriate to mention that the festivities were early in the last fiscal and this quarter witnessed a rise in raw material prices and appreciating USD.

Let me now take you through the product wise analysis for Q2 FY19. You may refer to slide #5 and #6. Starting with switch business, the segment posted sales of Rs. 606 crores, recording a growth of 81%, with EBITDA margin of 14%. The switch business comprises 40% of our total revenue.

The lamp business posted sales of Rs. 330 crores, with year-on-year growth at 12% and EBITDA margin of 12%. Our horns and acoustic business segment reported sales of Rs. 180 crores, recording a growth of 10%, with an EBITDA of around 7%. Our other businesses, primarily constituting of alloy wheels, aluminum dye casting, blow molding etc, has clocked a sales of Rs. 407 crores, with a year-on-year growth of 49% and an EBITDA margin of around 18%.

Moving on to slide #7. The revenue mix you may see they are segment wise. You will note that Four-Wheeler has shown stronger growth, which is primarily on account of acquisition of MRPL, and above average industry growth in Four-Wheelers compared to the Two-Wheelers. The overall capacity utilization across our product line is approximately 80%.

Moving on to the business updates for Q2 FY19. For consolidation update you may refer to slide #8. The acquisition of TG Minda of 47.8% equity has been completed, with effect from 28th of September 2018. The company has now become joint venture and it will be consolidated with the group based on the equity method. i-SYS RTS acquisition also has been completed on September 12, 2018. It is now a subsidiary of Minda Industries, and has been consolidated in this quarter on for 16 days.

Proceeding to new investments, you may please refer to Slide #9. Starting with controller project. The board has approved a project for controller and telematics for a total outlay of around Rs. 80 crores over the next 12 to 15 months. The project will be located at Chakan in Pune. This will be business division of Minda Industries and will operate in tandem with i-SYS recent acquisition to maximize synergies. The project is expected to be commissioned by end of calendar year 2019.

Moving on to the two-wheeler alloy project. I am sure you may remember; the board has approved this project in end of September for setting up two-wheeler alloy wheel project in Maharashtra. The project is planned to be executed in two phases. The expected outlay for the first phase of the project is around Rs. 300 crores. The first line is targeted to achieve the start of production by end of FY20. The plant will come up in Maharashtra ,as I just shared.

In terms of few developments. Our credit rating recently ICRA has reaffirmed the long-term rating of Minda Industries at AA. The outlook on the long term rating is stable. The short-term rating of the company is reaffirmed at A1 +.

This is all from our side, and now we can open the floor for Q&A. Thank you.

Moderator:

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

The first question is from the line of Ashutosh Tiwari from Equirus Capital. Please go ahead.

- Ashutosh Tiwari:** Firstly, if I look at the lighting margins, I think it was about 7% in the first quarter. This quarter, we have reported 12% margin. So, what is the reason for such a large variation on a quarter-on-quarter basis?
- Sunil Bohra:** There is some tooling income which we have received in the second quarter.
- Ashutosh Tiwari:** Can you share the amount please?
- Sunil Bohra:** It was roughly around Rs. 15 crores to Rs. 20 crores.
- Ashutosh Tiwari:** Okay. So, is it like a one off for the quarter how should one look at it?
- Sunil Bohra:** Normally, we do get tooling income continuously. So, normally it get clubbed. So, a part may have got in this quarter. This is not 100%.
- Ashutosh Tiwari:** Okay. And similarly, in case of Horns, how has the margins have come down from 9% to 7%?
- Tripurari Kumar:** This is on account of the Clarton Horns business. In Europe as you are aware the engine developments are testing is underway on account of WLTP, which has resulted in built up of inventories owing to reach the sales are lower in Europe and that is the reason why you have seen lower margins in horns as Clarton is almost 2 times the size of India business and that is the reason there is a lower EBITDA. But this should normalize over next quarter.
- Ashutosh Tiwari:** Okay. And can you provide some color on the financial metrics of TG-Minda in the first half, the sales, EBITDA and PAT number?
- Sunil Bohra:** Yes TG-Minda has been consolidated on equity method. We are not doing line to line consolidation, and it is only for a day or so. So, the impact of TG Minda we will be seeing only from Q3 quarter onwards.
- Ashutosh Tiwari:** Yes, I know that so I am just asking that just for reference how much PAT the company would have done in the first half?
- Sunil Bohra:** PAT in first half?
- Tripurari Kumar:** I will pull out this data , we will provide you in couple of minutes. Maybe we can proceed to next question .
- Ashutosh Tiwari:** Okay. And then on the CAPEX side how much we plan to do full in say FY19 and FY20 apart from this Rs. 137 crores investments in TG Minda?
- Sunil Bohra:** You are saying FY20 or FY19?

- Ashutosh Tiwari:** FY19 and FY20?
- Tripurari Kumar:** CAPEX in TG Minda?
- Ashutosh Tiwari:** No, CAPEX for the company total consolidated?
- Tripurari Kumar:** On consolidated, the expected CAPEX is around Rs. 500 crores.
- Ashutosh Tiwari:** Rs. 500 crores for this year?
- Tripurari Kumar:** Yes.
- Ashutosh Tiwari:** And this is including Rs. 137 crores spent in TG?.
- Tripurari Kumar:** Absolutely.
- Ashutosh Tiwari:** And for next year?
- Tripurari Kumar:** Next year, the expectation is that it will be around Rs. 350 crores.
- Ashutosh Tiwari:** Okay. And on the alloy wheel side, how is the utilization shaping up of our Gujarat plant?
- Sunil Bohra:** Yes. So, the plant has started at a very slow pace, I would say in August. It is on the lines as we estimated. Yet to ramp up somewhere in the end of this fiscal.
- Ashutosh Tiwari:** Tripurari, you got the number for TG Minda?
- Tripurari Kumar:** I will give you, Ashutosh. Just a minute.
- Moderator:** Thank you, sir. We have next question from the line of Jigar Shah from Maybank. Please go ahead.
- Jigar Shah:** My question pertains to your outlook, particularly for the second half. Considering the way we are seeing the PV sales and whatever commentary we heard from some of the other automakers, the outlook for the cars does not look very good in the second half. So, are there any insights from your side on this?
- Sunil Bohra:** So, Jigar, thanks. I think good question. If you see our growth mostly has been better than the industry growth, and we hope to continue that journey. We do shadow the OEM's volumes and the visibility with us is same as you may have. So, we are expecting the similar kind of performance in the coming quarters.

Jigar Shah: Okay. And the other thing was on this regulatory upside that is coming after the next year or so. What kind of upside the company expects to have due to that in case of various products? If you can give a bit of quantification of that.

Sunil Bohra: Yes. So, as you would have observed, Jigar, that the board today has approved a CAPEX of Rs. 80 crores towards controllers. And there was also announcement, I think, from the government that they have preponed the AIS140 by a year. Controller being one of the component there. And as you may know, controller is used in improving automation in the cars. It is multifunctional and used in headlights, automatic doors, automatic lights, wipers, ambient lighting etc. Also AIS140 in telematics communication equipment connected with the vehicles to communicate remotely to track vehicles, intelligent transport system, etc. It will also now be mandatory to be installed in all public transport vehicles, including taxis and CVs. So, we are targeting revenue of roughly Rs. 300 crores in third year of full operations from only this controller project.

Jigar Shah: Okay. And if I may ask that one is the TG Minda. Airbag upside will come probably more from the next year. And then the BS-VI related upside and the controllers, sensors and controllers. So, all of these put together, if you take say FY21 is the year where the effect of all this would be more pronounced. What kind of impact could be there in absolute terms? And what kind of potential do you see?

Sunil Bohra: So, airbags to start with I think it is getting mandatory from next year itself, middle of next year. So, we will see the impact from FY20 only, not FY21. That is first. Second, TG Minda, as we just mentioned, it is our associate now. So, we will not see any topline consolidation, but it will be under the equity method. And we will have only a share of profit, which is accounted for in the financials. So, to that extent, it may not see any direct impact on our topline, but yes on the bottomline.

Moderator: Thank you, sir. We have the next question from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Just looking at consensus earnings the kind of valuation stock is trading at. And on the other side, if I see your both consolidated quarterly EBITDA margin and standalone margin, both the numbers hardly moved in last 5 quarters. And now with all the group level consolidation getting done, so quarterly revenue console is also stabilizing around this 1,400, 1,500 levels.

So, the questions which were answered in the previous question. But on a full year basis, the quantum of delta revenue, clubbing all those things together, spread across 2.5 years does not seem to suffice your revenue CAGR by 20% that too on the back of weak OEM outlook for the next 2 years. So, what is your strategy to maintain the 20% kind of growth trajectory? Any large ticket acquisition on the cards or any color on that, sir.

Sunil Bohra: Yes. So, thank you, Basudeb. I think very good observation. Coming on to the business where the growth will come from, obviously we will continue to see whatever growth the industry is

because, while there may be some short term slight headwinds in the OEMs, but the story is intact. So, if OEMs grow, which definitely they will India is highly un-penetrated market in terms of four-wheelers. So, that growth is definitely bound to come.

On top of it, as you would have observed, we are already on our capital expansion drive where we have committed for a new two-wheeler alloy wheel project, that will add something like Rs. 400 crores to Rs. 500 crores to the top line at full capacity. Then we have another telematics controller project. This will add around another Rs. 300 crores in third year. And then going forward it will further increase. It is not going to stay at Rs. 300 crores. So, that way we are also organically sort of expanding.

Turning to your point on M&A, yes, the company does look into any opportunity, but we are as you know, we are not very, very aggressive. We will not buy a company just for the sake of adding revenue. We are selective. And you would see from our recent acquisitions like i-SYS and all, we have mostly acquired the technology which we can either, what we call, grow multifold bring it in to India etc. Or we will see a company, our strategy is, if any company which fits into our strategy, where it is not only into auto component but where we can add value. And we can not only take the company forward in terms of revenue but add value in terms of profitability grow the company to double the revenue in like 3 to 4 years. So, we are looking at M&A, but we will be selective. So, you will not see a flurry of M&A from our side. But yes, we are keeping our eyes and ears open.

Basudeb Banerjee:

Like from your PPT itself your exposure to two-wheeler, three-wheeler segment is almost 44%. But looking at the market reaction just on insurance hike of few thousand rupees, petrol price. Outlook for the industry is too much gloomy from a near term perspective. Beyond that, you will have the safety norms post that we will have BS-VI. So, what is your view on the two-wheeler segment? Can we leave that just as a temporary headwind or that problem can prolong further?

Sunil Bohra:

Basudeb, I am sure the OEMs will be better place to answer the question which you just said. But what I can add is that the team here is actually working on increasing the kit value. As you may know, we have started our own development center dedicate in addition to whatever we have at all the entities dedicated center with almost 100 people already on board in Pune in the name of CREAT. And we are likely to have 150 sort of people by end of this fiscal year. So, we are working a lot in terms of developing our homegrown technology.

We are obviously it is not only addition of kit value, but you can also expect some higher margins in the homegrown technology. So, there is a tremendous focus on R&D. And we hope that through that initiative, we will be able to add not only increase the kit value but also be able to expand margin in the medium term.

- Basudeb Banerjee:** And sir, would it be possible to throw some light on the organic value growth in your existing two-wheeler customers? From a 3 to 6 months perspective, what kind of outlook they are giving to you from off take perspective?
- Sunil Bohra:** I think the growth is same as you hear. So, as I said that broadly should be in line with what we have seen in first 2 quarters.
- Moderator:** Thank you, sir. We have the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Most of my queries have been answered. Just have two more. One is, are you from your interaction with different OEs from different segments, are we seeing any changes in the production schedule? So, ex-alloy wheels are we seeing a much more stronger traction? Other product categories, are we seeing any changes in the production schedule compared to what we have been communicated earlier say for the next 5, 6 months of FY19?
- Sunil Bohra:** Let me answer your question little different because I am not supposed to give you item by item details or schedules of.
- Viraj Kacharia:** No, this is at broader level.
- Sunil Bohra:** Yes. So, broader, I think to be very fair, there are some improvements, and there are some reductions as well. So, it is a mixed bag. I cannot say it is going in one direction.
- Viraj Kacharia:** Okay. So, any particular segment say a two-wheeler or a PV or?
- Tripurari Kumar:** No, it depends, say for example, the high-end cars may be selling less so there may be a little less demand from alloy wheel perspective. But then I have MRPL and others from that perspective the demand is very good. From two-wheelers the demand is very good. Somewhere indent is up, somewhere indent is down. So, it is a mixed bag.
- Viraj Kacharia:** The second question was since now we will be consolidating TG Minda. What we understand, they have a good share in Maruti and another Japanese player for the airbag. Now as pointing then we will have a next phase of regulation kicking in from sometime next year. So, considering our market share and the kind of adoption they have in airbags what is the kind of growth rate once you see in this business?
- Sunil Bohra:** Our market share is around 23% with Maruti. And we are #2 player in this category. We have already moved our facility in Gujarat will be operational by end of November. And we are quite hopeful that once the mandatory norms which kick in from July 2019 and for which the production will start by January 2019 onwards. We are quite hopeful that the growth will be significantly better. Again, the company currently has first 6 months turnover of around Rs. 270 crores. We expect this business segment to grow by at least 15%.

- Viraj Kacharia:** Okay. And is the business profitable?
- Tripurari Kumar:** Yes, it is profitable. To answer Ashutosh's question, in the first 6 months, we have done Rs. 270 crores of sales at a PAT percentage of around 3.2%.
- Viraj Kacharia:** Okay. So, if you look at other players in the space, the larger competitor was catering into Maruti and if you look at their financials in last three to four years they even bleeding in the operational level. So, incrementally are we seeing any further market share gains for us vis-à-vis the player if you can just provide qualitative?
- Tripurari Kumar:** No, it is a qualitative question and to answer you, let us understand that almost 50-55% of the front airbag market is already converted, right. So, they are having application in the cars already. What market is changing is the remaining 45% of which players like Toyota and Ford they already have 100% application of front airbags at least. So, Maruti is one where the application is only around 55%. And if anybody is placed to benefit from this change in notification, we should be among them for sure.
- Viraj Kacharia:** Okay. And when you say front it will mean both the drivers?
- Tripurari Kumar:** Driver side and the passenger side, yes.
- Viraj Kacharia:** Okay. Because the regulation only mix is mandatory for the driver side?
- Tripurari Kumar:** No, I think both. Driver side and passenger side. Yes, both will be mandatory.
- Viraj Kacharia:** Just one more question if I can squeeze in. On the telematics side if you can just provide or elaborate, what are your broader thought process because there are lots of players who is getting into this space. So, when we say we are looking to scale up this business apart from controllers what are the thought process which segments we will be targeting and what kind of business we eventually want to get it done?
- Sunil Bohra:** So, as I briefly touched upon little while back that the Controller business is the needs of that is enormous in the car and more and more automation is happening more and more demand is happening. The demand for controller is going up by the day. And I shared, for example, like headlight or automatic doors or wipers or ambience lighting, which is the new phase of the new innovations which I think has been leading in the pack.
- And AIS-140 which is going to be mandatory from as early as 1st of January for intelligent transport system, etc. So, we are quite positive about it, and we do believe that this can give revenue of around Rs. 300 crores from third full year of operations.
- Tripurari Kumar:** Yes, just to add to what sir had said, if you look at the controller business, with increasing automation and when we talk about semi-autonomous systems what happens is that every

application will require a controller. Every controller which means for example when IT has become mandatory one additional controller will be added. So, we will choose find the application in terms of any new control that you do. Whether it is for automatic door close, door opening, mood lighting or rain sensing wiper controls. So, the number of controllers will go up in the system which means higher electronic content and that is why when we talk about electronic content improving, we talk about the dashboard changing to cockpit. So, that is a longer journey of the story.

Moderator: Thank you, sir. We have the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Firstly, is on your two-wheeler plant that you are going to start. Just wanted to get a sense, I mean, it is quite different from the Four-wheeler alloys very clearly I mean four-wheeler the penetration is quite low. Two-wheeler it is already quite high. So, it will be more on the back of pricing that we will be get this business and secondly, the other players in this space we see they do not make very higher margins. So, how do you see this in terms of margins this two-wheeler plant once it starts operations, will it be like lower than the company average?

Sunil Bohra: So, it is too early to compare the average because there are lots of things changing like recently the government has increased the custom duty on alloy wheels from 15% to 20% and these things do have a significant impact in terms of pricing and margins. But just to cover in terms of market size and potential. As you would see that while the growth in the overall two-wheelers may be in the single digit or high single digit, the market for the premiumization in the two-wheelers like alloy wheels and others is actually growing in double digits. Having said that, currently the market size of alloy wheels is roughly 34 million wheels per year, of which the current capacity in India is roughly 14 million wheels.

So, we are as of now importing around 20 million wheels and the capacity that you are talking is roughly 3 to 4 million wheels. So, still the market is sort of import dependent and we there is lot of potential in terms of domestic capacity. And on top of that, I am sure you must have observed in various other OEMs as well in line with the Make in India, there is lot of focus in terms of converting the imports into the domestic one. So, in terms of whatever they can convert to local supplies. There is a lot of request from the OEMs as well. So, this is the fair at a very high level.

Mukesh Saraf: Right. So, the first phase is Rs. 300 crores, so the revenue from the first phase, what will be the maximum that we can generate, sir?

Sunil Bohra: It will be around Rs. 500 crores.

Mukesh Saraf: Rs. 500 crores, okay. And second is a very general question, sir. I mean, as you get more into these controllers and maybe sensors and things like that, do you see your import content going up initially? Or do you see that happening at all?

Sunil Bohra: You may be partially right but what we are also doing is that we are also trying to convert the imports into whatever we can do localize. Like for example, we have recently started Minda Katolec where we do all our SMTs in-house. So, that really supplies to all the completely inside like ECU cars or switches or controllers, etc. So, while there may be import dependency but we are also trying to localize whatever the extent we can.

Mukesh Saraf: So, and maybe like maybe just a very small phase you might see an increase, and as you ramp up those newer products, you are saying that you will be able to increase localization?

Sunil Bohra: Either new or existing also we will reduce the imports.

Moderator: Thank you, sir. We have the next question from the line of Jaishri Ram from Karvy Stock Broking. Please go ahead.

Jaishri Ram: Sir, I want to know what is your inventory holding period I mean is there any product for which you it takes more time for you to convert it or how does that work?

Sunil Bohra: So, normally for imports, we do have a little more holding period of roughly around 45 days to 60 days. For domestic it is roughly around 15 to 20 days max.

Jaishri Ram: 15 to 20 days. Sir, you were talking about increasing the kit value. So, with this, will you be able to like get cross sell. So, for I mean, in a sense, when you are talking about a kit, what kind of components you need to have and what is the mix like, just to get a sense on that?

Tripurari Kumar: Yes, so just to answer your question. For example, if I am talking about switching system which has a kit value of Rs. 2,000 in your 800-cc car. Because where you will see application only like LCS and front door power window switches. As you move up to B segment, C segment and above you will see that the number of switches that you are able to handle in a car mounted with steering mounted switches automatic climate control switches lot of switches which will be not actually controlled by you but they are sensor switches for example brake switches which is your switches relation to rain sensing wipers. So, the number of switches go up. So, they go up to as much as something like 8,500 in a top end model. So, that is what when we see that you want to expand the figure. How we will expand it for example in switches currently we have a subdivision called sensors actuators and controllers. So, now controllers business used to do only a lamps leveling model now out of the lamp leveling motor we will also be able to include products like we discussed telematics which could also find the application in user based insurance or intelligent transport system or we could have a BCU mood lightening.

So, what happens is when we start offering this or a wireless charger for your mobile so when we have these applications come in to play our offering increases and on the kit value goes up because of two factors. One is there are more features that we supply in the product and two, there are more product systems itself which we add into our broader switch plan.

- Jaishri Ram:** Okay. And regarding the BS-VI, now that it is going to be implemented in 2020, so can we see, so we may see some pre-buying and eventually your business also may go up. So, is that the right perspective?
- Sunil Bohra:** Yes. So, there will be we are not directly sort of having many equipments relating to what we call the engine but we will have some upside in terms of filters, in terms of some sensors etc.
- Jaishri Ram:** And just to touch base on your sensors business. I mean, how is it like and so how much did you do for the first half and how is it going to be for the rest of the year?
- Tripurari Kumar:** We have currently a subdivision, a division under switch called SAC which does around Rs. 135 crores business on a full year basis. Now we have tied up with Sensata, which is an offshoot of Intel and this company is likely to begin production by April next year. And we are hopeful that we will be able to participate in terms of full third year production by 2022-23 we should have a Rs. 400 crores business under this setup. And we will be supplying sensors, which will find application in your emission norms including high temperature, high pressure, differential pressure sensors and also engineering crank related sensors.
- Jaishri Ram:** Okay. You said Rs. 200 crores, right?
- Tripurari Kumar:** I said Rs. 400 crores.
- Jaishri Ram:** Rs. 300 crores, so this is going to be there by FY20?
- Tripurari Kumar:** No, I said by FY23, Rs. 400 crores.
- Moderator:** Thank you. We have the next question from the line of Pankaj Bobade from Axis Securities Limited. Please go ahead.
- Pankaj Bobade:** So, just wanted to understand our investment rationale for setting up alloy wheel plant. You discussed about the market size and the capacity. Can you please repeat the number and also wanted to understand will it have the same margins what we have for four-wheeler alloy wheels?
- Sunil Bohra:** Yes. So, in terms of market size, Pankaj, we said it is roughly currently around 34 million wheels. So, the domestic capacity is roughly 14 million and import content is around 20 million. And what we are talking is in the range of 3.5 million to 4 million.
- Pankaj Bobade:** That will be our capacity, 3.5 million to 4 million?
- Sunil Bohra:** That is right. In terms of margins, as I think you may know that today, four-wheelers do enjoy the better taxation regime in terms of not only customs but also there is an Anti-Dumping Duty (ADD) which is not there in case of two-wheelers. But the market has been changing and I think

government also is focusing on lot of localization. So, let us see that in case the ADD also comes on two-wheeler then the margins may be in line with the four-wheelers.

Pankaj Bobade: So, right now there is no anti-dumping duty, right?

Sunil Bohra: Yes, not on two-wheeler it is there on four-wheelers. But there is a custom duty of 20%.

Pankaj Bobade: Can you please throw more light on that? How much is it on four-wheelers and what is the scenario for two-wheelers?

Tripurari Kumar: Okay so the anti-dumping duty which is in place currently for four-wheelers is about \$1 per kg, which corresponds to almost if you have an average sale price of Rs. 350, Rs. 360 per kg which corresponds to Rs. 75 in the current market. So, that is the quantum of duty which is there on the imports from the anti-dumping duty perspective.

Now the similar number for two-wheeler wheels where we do not have an ADD so there is no number per se which is stated but whatever is the import value, on that value there will be a 20% customs duty which will be levied which should bring up the cost but not as much as it does in case of four-wheeler.

Pankaj Bobade: 20% custom duty on import value?

Tripurari Kumar: Yes.

Pankaj Bobade: So, what is the margin currently for two-wheeler wheels and in case anti-dumping duty is imposed, how much can it increase to?

Sunil Bohra: Currently we are not manufacturing alloy wheels. So, it will be difficult for me to give you a number. And as far as we are concerned, we will expect that the margins for the new two-wheeler alloy wheel business is in line with our group revenue and margin profile.

Moderator: Thank you. We have the next question from the line of Ashutosh Tiwari from Equirus Capital. Please go ahead.

Ashutosh Tiwari: On this TG Minda, can you throw what is the current capacity of the plant and how much we are adding in Gujarat?

Tripurari Kumar: No, I think we are shifting one line from Neemrana to Gujarat. And obviously there is our land which is available for us to expand further for which we have already tied up the machinery etc which will come up in the near future. And those will not be additional CAPEX.

Ashutosh Tiwari: Okay. But our capacity is how much roughly at TG?

- Tripurari Kumar:** We do close to 7.5 lakhs vehicles.
- Ashutosh Tiwari:** Sorry 5 lakhs vehicles?
- Tripurari Kumar:** 7.5 lakhs
- Ashutosh Tiwari:** Okay. So, this budget should see very high growth in the next year in the operating ratio also help you improve margins, right?
- Tripurari Kumar:** It should improve but you will appreciate that as it is going to be accounted on the equity method you will not see this reflect either in the topline or in the EBITDA.
- Ashutosh Tiwari:** That is fine. At the PAT level I am saying. And secondly, you mentioned this custom duty increase in the two-wheeler alloy wheel from 15% to 20%. This happened when exactly?
- Sunil Bohra:** I think a couple of months back.
- Tripurari Kumar:** Yes, around couple of months back and yes I will share that detail with you, Ashutosh.
- Ashutosh Tiwari:** Okay. And lastly, on the lighting side, are we seeing increasing LED content in your sales basically and how do you see this thing helping the revenue in the next say 4, 5 years?
- Tripurari Kumar:** Yes, for example when I look at the margin profile of Rinder despite some accounting changes on the design fees we are very close to 10%, and when we had acquired the company towards around 8%, with design fee is being capitalized. So, in a way we have moved more than couple of points work from there which is in line with our expectation that the product mix will move toward LED and in two-wheeler space this will move faster than the four-wheelers because of the price points which will become a challenge in the four-wheeler space.
- And to name a few models where we are doing this I think we are doing this for Jupiter, we are doing this partially for a new model called Activa 125 in the Apache series we are doing this RTR310. So, we are quite hopeful. we have got new headlamp orders from the Hero Group. So, the business has positive outlook.
- Moderator:** Thank you. We have the next question from the line of Jigar Shah from Maybank. Please go ahead.
- Jigar Shah:** I have a follow up question on the margin. What we see is that you have held onto the margin at the EBITDA level. And we see the industry most of the major auto companies have posted some or the other pressure on the margin. So, want to understand that are we able to manage due to very strong growth internally or some cost efficiencies or there is some amount of cost pressure, which we have not yet witnessed but it will come from declines in the later half of the year? So, if you can shed any light on this.

Sunil Bohra: So, I think as you rightly said in the first two points, which is that there definitely is a benefit which is coming out of higher values. So, your scale definitely is able to absorb more costs and be yes, while we do see a little higher cost but because of volume and also the internal measures which we are taking in terms of optimization which is again a continuous process.

We continue to look into each and every aspect of our costs and be as simple as possible. And be as efficient so both of them has yielded good benefits in terms of ability to maintain the margins.

Jigar Shah: So, for the full year, you still expect margin to be similar to what is there in the first half or it can have a little bit of impact if the four-wheeler remains a bit tepid?

Sunil Bohra: Difficult to comment exact number because as I said a little while back that there is a mix little bit of change in H2 compared to H1. There are some increase in intense, there are some decreases in intense. So, our expectation will be to do in line or better, but it is very difficult to pinpoint an exact number at this stage.

Moderator: Thank you, sir. We have the next question from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: Sir, my question is on we have acquired a lot of companies over the last couple of years. And in many cases, we have 50%, 60%, 70% kind of stakes. Is there any plan to turn them into wholly-owned subsidiaries? I mean, for example Mindarika and Minda Kosei, what is our outlook in this regard?

Sunil Bohra: So, we do believe that our relevant joint venture partners bring lot of value on the table. While we do bring value in terms of not only our reach or excess but also our strength of managing business in India doing efficient operations. And there is a win-win in this partnership. So, ideally we would like this partnership to continue.

And we do not look to sort of what we call, go solo, unless any partner wishes to do so. So, like Mindarika the example you said, this is our first partnership, which is now into 27th year. And we actually internally sort of want that this partnership to continue forever and we have no aspiration as of now to sort of go solo.

Tripurari Kumar: And the consolidation that we have done, you will see that in most cases we have acquired stake of the group companies. And we are not gone ahead and acquired stake of the JV partners, with exception being TG-Minda where we have acquired additional stake from the JV partner. But that is an exception but most other places we have just acquired stake from our group companies.

Jehan Bhadha: Okay. And sir, a second question is on the debt. What is our current debt and what is the outlook by March 2019 where will our debt be?

- Tripurari Kumar:** We are close to Rs. 900 crores at a console basis. And if you take a net debt the number will be around Rs. 800 crores. My number for the year end on a net basis should be around Rs. 850 crores..
- Moderator:** Thank you. We have the next question from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.
- Priya Ranjan:** On previous question, like what is the EBITDA margin or EBITDA for TG Minda, which you have said the revenue number for TG-Minda?
- Tripurari Kumar:** That is around 12%.
- Priya Ranjan:** 12%. And the capacity you said was not very clear. Was it 2 lakhs, 2.5 lakhs?
- Tripurari Kumar:** Actually what happens is when you manufacture a product like air bags the capacity is not defined in terms of number of air bags. It is defined in terms of number of batches of the production of sub-production systems that you have. So, I could have a capacity of steering wheels which could be around 1 million but I may be only doing air bags which would be there for around 7.5 lakhs vehicles.
- Priya Ranjan:** And any thoughts on the ramp up, what kind of numbers we can look at maybe 3 years down the line from the alloy wheel etc?
- Tripurari Kumar:** We are targeting a growth which should be north of the sector growth. And that is the position. And there will be two things which will be there because now I think in the alloy wheel business also, we have achieved a size. Let us say this year we end anywhere between 650 to 700 and from there I think we should look at a growth, which is in line with other business segments. This I am talking about the passenger vehicle only. There will be two-wheelers which will move faster.
- Priya Ranjan:** And when we talk about lot of controllers and sensors which is also setting within the switch segment. So, lot of sensors and controllers, if I am not wrong will be replaced by switches also. So, what kind of business I mean, incremental business we will get if those kinds of products will move towards sensor and controller from being a pure switch business?
- Sunil Bohra:** Priya Ranjan, it is not necessarily that the switches business really moved to sensors because as we know that there is a lot of automation happening in the car and the demand is going up. In fact if you recall 5 years back, the rain sensor or a light sensor was a luxury. Today it is now in almost car. So, actually the share of the pie actually is growing. It is not replacing necessarily, but the demand for sensors etc is growing at a much faster pace than the industry.
- Tripurari Kumar:** Correct and also for example in your high end cars when things become sensor oriented, for example you have an automatic climate control, it does not give away the switching function.

You still have it, right? Though it is more high-end and in comparison to an entry segment vehicle where you will have more manual control switches.

Priya Ranjan: And you have just given the number like, I mean in an 800 CC car you will have a kind of Rs. 200 per car as a kitty.

Tripurari Kumar: Rs. 2,000 I said.

Priya Ranjan: And then when you move to say high end car, so it moves to around 8,500. So, what kind of high end car you are assuming when you are talking 8,500?

Tripurari Kumar: For example?

Priya Ranjan: Yes, for example, like for high end cars. You had mentioned for high end car, it will be going up, it might go up to.

Tripurari Kumar: D segment, yes.

Moderator: Thank you. We have the next question from the line of Swapnil Shah, an individual investor. Please go ahead.

Swapnil Shah: I have a couple of questions. One would be, can you just throw some light on the demand outlook in markets outside India? I mean the share of exports revenue is gradually increasing for the company. So, could you just throw some light in case of Europe the new WLTP regulation was introduced so what was the impact of that regulation on the company, can you just throw some light?

Tripurari Kumar: So, two things. One is our Clarton business, which is based in Europe is experiencing slow ramp up and slow improvement in sales because of the WLTP issue which we have mentioned. But as you are aware the entire industry is waiting for the norms to be changed and there are lots of inventories at the OEM level. Now, talking about India, part, we are maintaining our outlook for this because which is predominantly on the switch and the horn side. So, we are pretty much confident that we will be able to achieve those numbers.

Swapnil Shah: Okay. My next question will be pertaining to commercial vehicle side. Just wanted the share of revenue in terms of commercial vehicles. Is the company supplying any parts to the CV makers?

Tripurari Kumar: We do, but that fraction is very, very small. It should be between 2% and 3% of overall pie. But that we club with four-wheelers.

Moderator: Thank you, ladies and gentlemen. That was the last question. I now hand the conference over to the management for closing comments. Sir, over to you.



*Minda Industries Limited
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Sunil Bohra:

I would like to thank everyone for joining the call. I hope we have been able to respond to all your queries adequately. It was pleasure interacting with you and I look forward to meeting with you all in person in the near future. For any further information, I request you may get in touch with us separately. I wish you and your near ones a Very Happy and a Prosperous and a safe Diwali. Thank you very much.

Moderator:

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