"Minda Industries Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Minda Industries Limited Q3 FY2019 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sunil Bohra, Group CFO from Minda Industries Limited. Thank you and over to you Sir!

Sunil Bohra: Thank you. Good afternoon, friends. A very warm welcome to all of the participants. On the call today, I am joined by my colleagues, Mr. Tripurari Kumar, and SGA, our IR advisors. I hope you all had a chance to look at our financial results and the results update presentation that has been uploaded on stock exchange site as well as company website. I will speak briefly on the industry and then give an update on our performance, following which, we will be happy to answer your queries.

I think the sector per say, the auto industry in Q3 of 2018-2019 witnessed a subdued demand environment on account of various factors such as increased cost of ownership on account of insurance costs; a bit of hangover of higher crude prices; hardening of interest rate; regulatory push; and impact on liquidity due to NBFC crisis, etc.

The festive season during the quarter has also been mild for the industry even with huge discounts by automakers over the year-end, as the factors mentioned earlier had a far greater impact on the customer behavior. In the quarter under reference, two-wheel segment grew at around 10%; the three-wheel segment grew at around 8%; the four-wheel segment including CVs and off-roads at around 18%, four-wheel segment was negative 5%; and off-road was positive 18%. We expect CV volume growth at 9% to 10% over the next two years and outpace two-wheeler and commercial vehicle growth. Any big rural stimulus in this election year could lift volume growth in tractors and motorcycles, which will be positive for the sector. Higher inventory continues to be a drag on the industry volume in December 2018 and January 2019 as well, with mixed sentiments across segments. The two-wheeler segment saw some competitive intensity on the pricing front; whereas, CV segment was marginally lower.

The CV segment volumes also for the month has seen a decline at industry level, however, within the industry, there are a few OEMs who have witnessed better demand pickup. The finance minister in his budget speech announced the scheme called PM Kisan Samman Nidhi under which farmers owning up to two hectares will get Rs.6000 per year and government also allocated roughly Rs.19000

Crores for rural loans compared to Rs.15000 Crores a year ago. Boosting of rural economy will help the demand for tractors. In addition, the two-wheeler demand sentiment, especially from the rural market, is expected to be positive given the government's focus on reducing the farm distress.

With government's efforts towards reviving the spending power coupled with OEM's plan to introduce new models, we expect industry to see the revival soon. Also with the regulatory push like transition from BS-IV to BS-VI and safety norms relating to compulsory airbags and reverse parking sensors, the auto ancillary industry is likely to see a renewed growth momentum in 2019.

Now moving on to the financial performance, the company posted strong results for Q3 and nine months of the current fiscal. On consolidated basis, the revenues during the quarter were at Rs.1,470 Crores with EBITDA margin of 12.3% and PAT attributable to MIL shareholders at Rs.69.35 Crores. Our nine-month revenue was Rs.4,421 Crores with EBITDA margin at 12.2% and PAT attributable to MIL shareholders of Rs.212 Crores. I am happy to inform you that the board has declared an interim dividend of Rs.0.45 per share as against an interim dividend of Rs.0.40 per share last year. This is adjusted for the bonus given during the last fiscal. This is in line with the management’s objective to gradually increase the payout to shareholders.

Moving on, you may refer to slide 4 and 5 of our presentation in case you have it readily available. The consolidated revenue stood at Rs.1,470 Crores for Q3 as against Rs.1,056 Crores in Q3 of FY2018 recording a growth of 39.2% year-on-year and for nine months stood at Rs.4,421 Crores for FY2019 as against Rs.3,100 Crores in FY2018, recording a growth of 42.6% year-on-year. Performance is backed by a strong growth in both OEM and aftermarket business. Inorganic inclusion of MRPL and iSYS, RTS has augmented the growth further. The consolidated EBITDA stood at Rs.180.4 Crores for Q3 FY2019 as against Rs.126.4 Crores for Q3 FY2018, a growth of 42.8% year-on-year, and for nine months stood at Rs.539.8 Crores for FY2019 as against Rs.364 Crores in FY2018, a growth of 48.2%. The EBITDA margin has expanded by 31 basis points to 12.27% for Q3 FY2019 from 11.97% for Q3 FY2018 and by 45 basis points to 12.21% for nine months FY2019 from 11.75% in nine months of FY2018. The margin is in line with previous quarters despite subdued demand environment.

Moving on, sequentially higher depreciation is also on account of capitalization of new projects in Gujarat. Accordingly, profit before tax for the consolidate entity grew to Rs.108 Crores for Q3 as against Rs.85 Crores for Q3 FY2018, a growth of 27% year-on-year, and Rs.345 Crores for nine months FY2019 from Rs.248 Crores in nine months of FY2018. The attributable PAT share increased by 17% year-on-year to Rs.69 Crores in Q3 FY2019 from Rs.59 Crores in Q3 FY2018 and increased by 21% year-on-year to Rs.212 Crores in nine months of FY2019 from Rs.175 Crores in nine months FY2018.

Moving on to product wise analysis for Q3, you may refer to slide #7 and 8. **Our switch business** This segment posted a sales of Rs.539 Crores recording a growth of 73%, including four-wheel switches with an EBITDA margin of 12%. The switch business comprises of 36% of total revenue. **The lamp business** has posted sales of around Rs.341 Crores, with year-on-year growth of 18% and a EBITDA margin of 11%. **Our acoustic business** posted sales of Rs.170 Crores, recording a growth of 3.4% and an EBITDA margin of 8%. All the **other businesses**, primarily comprising of alloy wheel, aluminum die casting, blow molding business, our recent acquisition, which is iSYS, all this together clocked a sales of Rs.436 Crores with a year-on-year growth at 52% and an EBITDA margin of 18%. As you will observe from the next slide, slide #9, that in the current quarter the share between two-wheel and four-wheel is equal at 50:50 of our total revenue pie as compared to our earlier quarters where the revenue was tilted in favour of four-wheeler to two-wheeler. This is primarily because of the subdued performanceof four-wheeler segment in the last quarter.

Moving on to some business update for Q3 FY2019.

Collaboration with KPIT for telematics

We have recently entered into a definitive agreement with KPIT Engineering Limited to purchase its business related to telematics hardware product consisting VTS-AIS 140. On bus, integrated telematic system compliant to UVS2 specification and telematic products for school buses. The consideration for a possible transaction would be initial payment of around Rs.25 Crores and certain milestone linked variable payments going forward.

Moving on to some other update in terms of BS-VI norms, the only business which is in our portfolio gets impacted majorly due to BS-VI emission norms is our filter and canister business and we are happy to state that our JV Roki Minda has successfully qualified in the QAV 1 and 2 audit, which is conducted for the development of BS-VI model air cleaner assembly for HMSI, which broadly means that our filters are now BS-VI compliant. With this, we will now open the floor for a Q&A. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Sir, first housekeeping question. If I look at your revenue breakup, the others pie, the EBITDA margin there have shrunk almost 300 bps on a nine-month basis, if you can help us understand where has the major contraction happened and the reason? Also, the JV profits have seen a sharp deceleration. If you can help us understand what are the constituents and where the knock has come? That is the first question.

Tripurari Kumar: Ronak, if you look at the sequential quarter-on-quarter number of the others, it stands at 18%. So I do not see a dilution of 3%. Let me know if I have understood you incorrectly?

Ronak Sarda: I was saying nine-month FY2018 to nine-month FY2019?

Tripurari Kumar: So that is because the components now are different than the previous year, but we should look at the number which is more comparable between the previous quarter and this quarter, which is sequentially the same number.

Ronak Sarda: So sequentially you are saying it is 18% has become 17%?

Sunil Bohra: Yes, continues to be 18% only.

Ronak Sarda: Okay and on the JV profit?

Sunil Bohra: Okay, let me address it. So your point is very valid Ronak. So some of our joint venture businesses are associates where the profits are consolidated. You are right that it has moved from Rs.4 Crores odd to Rs.1.9 Crores. I think that is the point you are raising today?

Ronak Sarda: Yes, yes.

Sunil Bohra: So I think the primary there are one or two reasons. One is that at one of our JV, which Onkayo, which manufacturer's speaker is, there has been some delay in terms of getting some exports orders etc. We expect to get momentum-starting end of this month. So hopefully, we will have much better profitability in Q4 in that business compared to Q3 and another was RPAS, which we have a JV with TT. We all know that there has been some delays in terms of getting that notification done because of which we have actually build some inventories and have started costs, which hopefully will rectify from coming quarters.

Ronak Sarda: Okay and Sir, just to reconfirm the JVs and the associates are basically your airbags, Kosei Minda, the alloy wheel part, infotainment, Onkayo with the speakers and RPAS. These are the five main constituents?

Sunil Bohra: Correct and Roki Minda also.

Ronak Sarda: Okay, Roki Minda, yes. And Sir second question is more on your switches business, Mindarika. Sir, can you highlight how Mindarika has done on its own? I understand where you have consolidated it for some part of the year, but if you can just highlight the performance vis-a-vis last year, the growth there and how the profitability been?

Sunil Bohra: Yes, so Mindarika, as we clearly mentioned a little while back compared to business mix, both Mindarika and alloy wheel, which are two major constituents of our revenue pie in four-wheel, there we have seen some volume impact. And that is why our sales in the four-wheeler segment have been a bit lower. That is a key reason why our revenue in both Mindarika and alloy wheel has been a little lower compared to some previous quarters, which has been offset by some other businesses.

Ronak Sarda: Sorry, what I meant was, if I understand correctly from your presentation, Mindarika for nine-months is around Rs.611 Crores, what was the similar number last year for nine months? Then how has been the organic growth at Mindarika? If you can help us understand what is the growth there?

Trupurati Kumar: Last year it was around Rs. 550-560 Crores.

Ronak Sarda: Okay. And Sir, what are the prospects here, because we are seeing a lot of steering mounted switches coming into the cars today, so?

Sunil Bohra: Mindarika is doing really good. It is only because of some pressure in last quarter, the volumes have got impacted. Hopefully, we should see some better volumes in the coming quarters.

Ronak Sarda: But if you can help us understand from the product perspective what incrementally we are doing or what is the market share, new products or the new content, which we are enjoying?

Sunil Bohra: Mindarika enjoys a very good market share.

Tripurari Kumar: Mindarika has north of 50% market share in the industry and for the quality of switches and its customer agnostic, we supply to everybody including Hyundai in small volumes.

Ronak Sarda: Sure, anything on content, how has that grown over the last few years? If you can help us understand.

Tripurari Kumar: No, that we will present in the annual slide, Ronak because that cannot be looked quarter wise.

Ronak Sarda: Okay and Sir last question is on your capex and investments, any more consolidation pending from the group side? And what is the capex for this year, next year?

Sunil Bohra: Yes, so from a consolidation front, as you observed in the last call also, large part of our consolidation is done almost 90%-95%. Only which is pending is a small increase of potential equity in TRMN, even after increasing of that equity it will remain a joint venture. So it is not going to get a subsidiary status, it will remain as associate, so having said other than that, there is nothing which is pending at this point in time.

Ronak Sarda: TRMN is Tokairika?

Sunil Bohra: Tokairika Minda, TRMN.

Ronak Sarda: TRMN, okay and the capex part for this year, next year?

Sunil Bohra: Yes. So capex part next year we are looking at something around Rs.400 Crores based on our current approved pipeline and current year is around Rs.400 Crores to Rs.450 Crores that is what we said in the last call and there is no material change in that.

Ronak Sarda: Sure. Okay Sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Vimal Goyal from Union Mutual Fund. Please go ahead.

Vimal Goyal: Thank you for the opportunity Sir. I am sorry of if I am repeating this question, but I think you had given an explanation on what is impacting the share of associates. One of the reasons you gave us was the Onkyo JV. What was the second reason?

Sunil Bohra: So one is Onkyo JV, another is TTE, which is our RPAS, and third which I think I would like to add is, there is some volume impacting our filter business, which is Roki also. So profitability is lower compared to Q2 in Q3.

Vimal Goyal: The first one you said is TTE, second is RPAS and the third one is Roki right?

Tripurari Kumar: Onkyo is the first one, yes.

Vimal Goyal: Okay, got it. Sir, the second question that I had was, what would be our gross and net debt number on the books currently?

Tripurari Kumar: We do not give this number, but on a gross basis, it could be around Rs.850 Crores at consolidated basis. The half yearly balance sheet is there in the presentation.

Vimal Goyal: Right okay and Sir last question on my side. Sir, Maruti has been seeing some pressures on profitability. How do you see yourself conversing with them in terms of protecting your own profitability and what kind of conversations that is you having with OEMs in totality?

zzSunil Bohra: I think it is a classic question, which I am sure is a general tendency in the market that whatever pressure comes from top it comes to us and whatever comes to us also goes down. So this is a normal part of the business and there is nothing, which is exceptional, which is happening at this point in time. The business has its own way of getting it through. I think this is a small rough patch. I am sure it will go past very quickly.

Vimal Goyal: So is this what the OEMs are guiding?

Sunil Bohra: Yes, I think so. So everybody I think, is conservative at this point in time because whatever is market that drives the sentiment. But from within there are quite a few of new launches coming and there are quite a few of optimism around those launches in the various OEMs. I think that things should improve going forward, that with newer launches across categories when I say newer launches, it is not only in premium category, be it Maruti, be it Mahindra, everybody is coming up with newer launches, and that hopefully should provide some momentum to the tepid demand currently.

Vimal Goyal: You do not see any sort of immediate pricing renegotiations coming in or something like that?

Sunil Bohra: No. Vimal that this is part of the business. The pressures do come, but then it is up to management, how to we sort of handle those pressures.

Vimal Goyal: Fair enough Sir. Thank you so much.

Moderator: Thank you. Next question is from the line of Sidharth Bera from Nomura. Please go ahead.

Sidharth Bera: Hi Sir. Thanks for the opportunity. Sir my first question is if I see the past few quarters because we understand last year Q3 there were some businesses, which were getting consolidated. So if I see the revenue trajectory for last four quarters, in terms of run rate, not much has changed. So just trying to understand is it purely due to the industry OEM demand is slowing down or is it something else, because even in this period, your other's revenues have gone up, but the other switches like horn segment revenues have largely remained flattish. So how to look at it going ahead, because from Q4 onwards I understand that you will not have the benefit of a lower base?

Sunil Bohra: Sidharth. Thanks for your question. So current set of momentum obviously we were expecting at the beginning of the year much better third quarter. But as you all know, that industry has been going through a little bit of patchy sort of stage, and that is why our revenue has been roughly stagnant around Rs.1500 Crores if I pick that number in last three quarters and with addition of newer products, with the addition of new capex, addition of new entities, be it business from KPIT, be it iSYS, be it Sensata, all this will start adding to top line in the coming quarters and added with the volume uptick, which is definitely expected in few segments in a big way, we should move to a newer trajectory in the coming year.

Sidharth Bera: Sir, could you give us some color in, say in this quarter till date, have we seen improvement in the growth from the OEs or is it broadly trending at similar levels what we have seen in Q3?

Sunil Bohra: No. I think if you see the market Sidharth that our revenue growth is actually better than the OE. If I take pure OE growth, that is the number which we sort of combine, the pure OE growth is only 10% in last quarter. When I see blended OE growth, two-wheeler, three-wheeler, off-road, four-wheeler everything and even though my growth looks higher because of consolidation, if I take out the impact of the consolidation, my actual growth is 21%, which is 3x of the industry.

Sidharth Bera: Okay, got it. So the second question is Sir, can share the consolidated client mix for you, say currently or probably in the last nine months, how it is?

Sunil Bohra: We normally do it annually Sidharth, but if you want to ask me who is the largest customer, obviously, Maruti it is, which is roughly around 25% of our total revenue and which is, again, 50% of my total four-wheeler sales and Maruti command 50% market share. So I am in line with the industry actually.

Sidharth Bera: Okay and this will be followed by Sir, which was the second largest client?

Tripurari Kumar: Among four-wheeler, it will be Toyota and Renault and Mahindra will be in the same line. In two-wheelers we have HMSI, Bajaj close to 9% of my overall revenue, followed by Royal Enfield at around 5% that is basically the mix.

Sidharth Bera: Okay, got it and Sir, secondly, just wanted to understand what are the contributions from some of the new businesses like the airbags and infotainment, so basically, what are the type of revenues we have already seen from these businesses in the quarter and how much do you expect these to become say probably in two years down the line, especially for Roki also like you highlighted for the BS-VI opportunity, so I want to understand to get the sense on how big these opportunities actually are compared to what you have reported currently?

Sunil Bohra: Sidharth, your point is very valid. Be it airbags, be it RPAS or be it filters, compared to all the business, three businesses you mentioned are our joint ventures. So while we will be consolidating the share of profit, the revenues will not flow to the top line because of the new Ind-AS requirements. Even though we own 50%, we will not be able to consolidate the revenue. It will come only at the profit level.

Tripurari Kumar: However, we believe that these segments will see strong growth, in particular airbag, which is likely to see better growth from July 2019 these are being notified and the front airbags will become mandatory. And filters we will see a big uptick in terms of the BS-VI norms and the third product you mentioned, RPAS is also coming into play from July 2019. So we are extremely positive on these three products and there will definitely be more than 1.5x to 2x the growth that the industry will see.

Sidharth Bera: Okay Sir. Thanks a lot. I will come back for any more questions.

Moderator: Thank you. Next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Congrats on good set of numbers. Firstly, if I look at the revenue pie in the chart, Rinder India sales have gone up Rs.59 Crores versus last year, but I think there is some Rs.24 Crores impact of two-year high results, so this provision is related to Rs.35 Crores addition is there that is a quite strong growth. Can you share the exact number of sales in the current year for Rinder this quarter once again?

Tripurari Kumar: For this quarter, like you said, the incremental both on account of lighting and certain switch incremental business that we have done and you are right, the lamp business for two-wheeler has been hived off. So the incremental sales have come from switch and lamp.

Ashutosh Tiwari: No, I am talking about Rinder India only. There is Rs.59 Crores increase versus last year in terms of sales, Rinder India. So it is current sales because that is a very strong growth versus last year and what is driving that sales growth?

Tripurari Kumar: Because, there is an incremental close to Rs.20 Crores of number, which has been added from hiving off of two-wheeler business from Minda Industries to Rinder and they have a good mix of new LED lamps, which have come into play.

Ashutosh Tiwari: Yes, that is why I am asking that how much sales increase has happened versus last year? If I just look at the Rinder business last year, what it was?

Sunil Bohra: Well, we will look at numbers, Ashu, separately. Trip can revert to you. The numbers if I see quarter-on-quarter they are flat.

Ashutosh Tiwari: Okay, so secondly in the iSYS, the controller business, what kind of sales you are doing currently and how do you see the ramp-up happening of this over FY2020 and 2021?

Sunil Bohra: I think iSYS; it is an excellent opportunity, which we have sort of entered in September. Currently, we are in the process of integration and we will be making up our growth plans in the coming months. Maybe we will be in better position to answer during our annual call in terms of the future growth potential and plans.

Tripurari Kumar: Currently, we are doing close to Rs.15 Crores, Rs.16 Crores per quarter.

Ashutosh Tiwari: Okay and we also had a controller business, which is part of switches that still is not there?

Tripurari Kumar: Yes, controller continues to be part of my standalone business division and the recent transaction that we done KPIT is also on telematics controller, which also will be part of the controller business of MIL.

Ashutosh Tiwari: Okay and this KPIT business you bought, what would be the opportunity size you are looking at, say in FY2020 in terms of sales and all?

Sunil Bohra: No. Annual numbers, Ashutosh, as I said, we will comment only at the year-end when we done through our internal exercise.

Tripurari Kumar: The budget exercise will begin this month, so most likely towards the next call.

Ashutosh Tiwari: Okay and lastly on the TTE, I mean, that business after July 2019 that RPAS becomes compulsory, can you give us some idea what kind of market share we are looking at in the market?

Sunil Bohra: Yes, so we are looking at around 35% market share in RPAS.

Ashutosh Tiwari: And let us say in a basic car, mostly the content per vehicle and say in the midsized segment car?

Sunil Bohra: It is around Rs.1,250.

Ashutosh Tiwari: In the basic model?

Tripurari Kumar: Yes.

Ashutosh Tiwari: And say in a midsized car, probably there are more features like, may be a camera also in that so, what kind of?

Tripurari Kumar: Both Rs.1250 to top end at Rs.8000.

Ashutosh Tiwari: Major customers will be Maruti only there also?

Tripurari Kumar: Yes, obviously. Maruti, Mahindra, both of them.

Ashutosh Tiwari: Okay and on this MJ Casting how is the sales panning out?

Tripurari Kumar: For MJ casting how is the?

Ashutosh Tiwari: Sales, I mean the sales growth we are seeing in the current quarter?

Tripurari Kumar: In the current quarter, we have done close to Rs.70 Crores odd.

Ashutosh Tiwari: Okay, fine. Thanks a lot.

Moderator Thank you. Next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Congrats Sir for great set of numbers. A few things; one, at the ex of stand-alone level, at subsidiary level business, despite such bad times in the industry both two-wheeler and four-wheeler, largely you have managed to keep a steady revenue sequentially, but what is the main driver where the margin ex of standalone is moving up. Even this quarter it was better than previous quarter and it is almost at 5, 6 quarter high. So if you can explain what is the driver behind that?

Tripurari Kumar: No, when you say margin, Vasudev, you are talking to EBITDA margin or anything else?

Basudeb Banerjee: Yes, EBITDA margin.

Tripurari Kumar: So EBITDA margin, I think standalone is around 10….

Basudeb Banerjee: No I am saying ex of standalone business. Standalone EBITDA margin definitely succumbed to the market weakness, but that is not getting reflected at ex of standalone level?

Tripurari Kumar: No, ex of standalone, which means once if I count out standalone, for example I have hived off two-wheeler business from standalone to Rinder. So there we have almost 9% to 10% PBT number, which has gone to the lamp business under Rinder then there is alloy wheel, there is iSYS, there is blow-molding business including MJ Casting. So, these are businesses where we continue to deliver numbers north of 15% at EBITDA level and these have been growing businesses in comparison to what number you would have seen last year.

Basudeb Banerjee: So will it be right to assume that within the subsidiary level, ex of alloy wheel because alloy wheel has been like super margins. So without alloy wheel also your margin in ex of standalone level is rising closer towards that 13%, 14% level?

Tripurari Kumar: Yes, so you look at my ASEAN subsidiaries, both PTMA and MIVCL, they have PBT percentage close to 19%, 20%. So these are decent set of businesses outside standalone also and that is why on an overall blended basis, we believe these numbers are sustainable on a consolidated basis.

Basudeb Banerjee: Sure, because in such adverse times?

Tripurari Kumar: Sequentially we had a little poor EBITDA margin flat until last quarter, which I think is reviving considering that there was WLTP pressure that the entire fraternity was going through. So we are hoping some better margin profile in the fourth quarter and going forward in the sequential quarter as well.

Basudeb Banerjee: Sure and similar to the explanation which you gave for the reverse parking sensor. So what will be the similar size of opportunity for Roki Minda and how much of the market share you are expecting so that one can have an idea about the size of the opportunity for you?

Sunil Bohra: So Roki Minda overall, we are very positive in terms of long-term.

Basudeb Banerjee: Post BS-VI.

Sunil Bohra: Immediately. So in Roki, roughly we are seeing a growth of 15% to 20% on a sustainable basis.

Basudeb Banerjee: Post BS-VI with all the new filters, which you qualified for?

Sunil Bohra: That is right.

Vasudev Banerjee: Okay, next Sir end of Q3, what is the net debt level?

Sunil Bohra: So I think this question came earlier also. Roughly the gross debt is around Rs.850 Crores to Rs.900 Crores. Net will be Rs.100 Crores less.

Basudeb Banerjee: The 400, 450 figures of capex, which you mentioned both for this year and next year, does that include the potential investments in JVs, etc?

Sunil Bohra: No, as of now, there is no significant investment now to be made in JV. Only which we have mentioned, which is pending is a small increase in TRMN where we will remain to be an associate. So it will only be only for 30%. So it will not be any material investment.

Basudeb Banerjee: Sure and Sir how is the order book now looking at from the various OEMs. As you mentioned earlier, new launches, but the concrete order books you are getting from the key OEM customers may be from a one or two quarters perspective. How much improvement you are seeing now?

Sunil Bohra: Look, Basudeb, while I can give you the numbers, the comments, but you know very well that the indents change on a month-through-month basis. At times the indent change in middle of the month also, so we do have visibility or a good visibility of orders in terms of growth and I can say that we are quite positive in the coming quarters and so we were in Q3, but the indents actually had seen a significant change in the end of November, early December.

Basudeb Banerjee: So from that revised indent, how is that improved in January?

Sunil Bohra: Yes, so there has been some uptick compared to December. For example, if I had to take alloy wheel, the business is doing much better than what it was in December.

Basudeb Banerjee: Okay sure and last thing, Sir, just missed out, what is the schedule for the two-wheeler alloy wheel facility to get operational timeline?

Sunil Bohra: So our target is that to commission by March of 2020 within next financial year.

It will be a gradual ramp up. The first will be intent to produce within the next fiscal.

Basudeb Banerjee: So March 2020, the first phase of operations of two-wheeler alloy wheels will start?

Sunil Bohra: Not first phase, the commissioning will start

Basudeb Banerjee: So basically FY2021, one will get the revenue for two-wheeler alloy wheels?

Tripurari Kumar: Yes, full year revenue.

Basudeb Banerjee: Okay. Thanks Sir.

Moderator: Thank you. Next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Thank you very much for the opportunity. As you have been alluding earlier that you have been taking part in the products, which will drive the next level of growth, which have been mandated by the regulations as well such as airbags and another value-added things like infotainment and stuff. So I just wanted to get a sense on what is your FY2020 top line growth that you are targeting? So any color you would like to give on that front?

Sunil Bohra: While we do not issue our guidance, Bharat..

Tripurari Kumar: We will come back to you.

Tripurari Kumar: We are doing our budgeting exercise may be post that exercise when we interact after March, we will be able to give you a guidance, but having stated, we always have a growth number which is higher than the sector growth and that is something, which we will continue to guide for.

Bharat Gianani: So if I look at your historical trajectory, so that has been like about, I think you mentioned that in your earlier response to one participant question also, so you are expecting 1.5 to 2x kind of growth, so is that a fair estimate of that?

Sunil Bohra: That is fair, Bharat.

Bharat Gianani: Okay, so that is after considering all the incremental opportunity that you will have from all the new segments you are enter into?

Sunil Bohra: Including inorganic.

Bharat Gianani: Sorry.

Sunil Bohra: Yes, you are right.

Bharat Gianani: Okay. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Amit Hiranandani from Nalanda Securities. Please go ahead.

Amit Hiranandani: Thanks for the opportunity and congrats for the good set of numbers in this tough environment. Sir basically we have seen over the last few years the margins have been climbing higher every year.

Now what steps are we taking to improve this from here on and where do you think the sustainable margins would be in the coming two to three years.

Sunil Bohra: So Amit, I think at the beginning of the year, we have given the broad guidance. In fact, I would say narrow guidance that this year we expect the EBITDA margin to be between 12% and 12.5% and I am happy to say that despite such a tough quarter, we have been able to maintain it in that range. In fact, actually middle of the range and even the coming quarter, we expect that we will be in that range itself. In terms of switches, definitely, the team is working in terms of developing more products in-house. We have taken a lot of steps in terms of domestic research and development. I am sure a lot of you guys know that we have opened a recent dedicated R&D center at Pune under the brand called CREAT. We already have 150 full-time people working under the setup. The people have been sort of being added gradually over the last one year. Now I think we are there at the desired head count and its up and running. There are a lot of incubation projects which we have taken, and I am sure once we start seeing the fruits of that, which I am sure you will appreciate, that anything you come up - a new product, which will have its own timeline and lifecycle to see the start of production from the maturity or the nascent state, which they are currently, which can easily go from two to three years, but that is the kind of pipeline, which will give you a sustained margin improvement and a higher margin, because if you come up with something new, then definitely you have a competitive advantage and a pricing power. So we are working a lot towards that. In addition, we are also working in terms of our existing businesses, what things we can do new and where we can improve our margins. So while I will not be able to give you a guidance for next year, we are continuously working on improving our margin and get into some sustainable range going forward. In addition, just to give you a perspective, our annual R&D spends is more than Rs.150 Crores.

Amit Hiranandani: Okay, but Sir, in the horn segment, there is a concern that in the past few years, the margin level was 9.5% around, but it has come down to around 7.5% in the recent nine months. Any one-offs are there and what would be the sustainable margin one can expect going forward?

Tripurari kumar: I think 9% is a sustainable number to look at. This quarter, like I was explaining in the previous question, Clarton Horn, which is our major subsidiary for horn, which is outside India and based in Europe. So in Europe, you had WLTP norms, on account of which there were worldwide harmonized testing program that was undergoing there. So a lot of inventories were there at the OEM level and the sales were not materializing, owing to which we had also some inventory buildup and lower sales and that resulted in lower EBITDA, but going forward, 8%, 9% on a blended basis both India and Europe is a good number to look at in terms of sustainable margins.

Amit Hiranandani: And Sir, your debt level in FY2018 was around Rs.609 Crores, which has climbed higher now to around, you said, Rs.850 Crores approximately. So are we looking for some more inorganic opportunities and do you see debt levels to go up from this level?

Sunil Bohra: So it is very difficult to comment on debt levels Amit, but we continue to look at opportunities and definitely, we will not do an acquisition just to add revenue. We are very clear that if anything we can add value, that only we will sort of look for inorganic growth and where we can leverage our relationship with the OEMs in order to provide the momentum or growth to that acquisition target. So yes, we are looking at a lot of opportunities, but obviously to get a right opportunity, I am sure it is very difficult and the success rate for any M&As, I think in single digit percentages when you start looking at the whole canvas. So we are looking at something and as you would have seen, while we have been doing small, small M&As recently, we have done KPIT, we have done Sensata and we have done iSYS. So all those things, while they look small, they have lot of potential in medium term. So we continue to look at both the small opportunities, where we can add value and grow and also look at some other opportunities where we can get a jump-start.

Amit Hiranandani: Okay. All right Sir. Thank you for the opportunity.

Moderator: Thank you. We take the next question from the line of Dhanish Jain from Assie Capital. Please go ahead.

Dhanish Jain: Congrats for the good set of numbers. Yes. Sir, I have two questions. The first question is Sir, if you see in last three quarters, the company's finance cost is consistently increasing, so I just want to know in the coming quarter again, this finance cost is going to impact on the profit again?

Sunil Bohra: Danish, yes, you are right that over the years, over the quarters, the finance cost has been growing as in line with the increase in debt and you will appreciate more for the organic and inorganic growth, both. During the year, we acquired almost Rs.200 Crores worth of assets, roughly Rs.140 Crores for TG, around Rs.45 Crores odd for iSYS, around Rs.25 Crores for KPIT and something ongoing on that. So there has been both organic and inorganic growth and that is a key reason why our debt levels are higher. But going forward, you will see that this quarter our EBITDA has been roughly around Rs.180 Crores. And if I just extrapolate that to a full year, we should be having EBITDA of something Rs.700 Crores to Rs.800 Crores minimum going forward, which should be more than sufficient to meet our internal capex requirements. So hence moving to next year, barring any inorganic opportunity, I do not see that debt levels to grow up materially from here.

Dhanish Jain: Okay. Second question is from the budget side. The government is very aggressive on this rural income, so is the company expecting a good number of revenues from this, the government more focused on rural income and all from two-wheeler side?

Sunil Bohra: Yes, definitely. So two-wheeler is, as you would have seen, is 50% of our revenue. So any government impetus on rural economy or any of money flowing into the rural economy or the middle class will definitely impact the two-wheeler segment, and obviously, we will be one of the beneficiaries out of that.

Dhanish Jain: Okay. Thank you Sir.

Moderator: Thank you. We take the next question from the line of Paras Shah, Individual Investor. Please go ahead.

Paras Shah: Congratulations for good numbers. I just wanted to understand, since the debt levels are high, are we considering declaring the dividend, would it be better to service the debt rather than giving it as dividends?

Sunil Bohra: I think, Paras, as a long-term shareholder now, I will address more, what you call, strategically or in a personal capacity. Any long-term investor would expect a sustained dividend stream as well in addition to a growth in the capital or the appreciation. It has to be a mix of both. So if you see our policy also has been very clear in terms of dividend policy that we would like to sort of increase our dividend gradually, and that is why the board has taken a good decision today in terms of increasing our dividend from 20% payout to 22.5% payout through interim dividend.

Paras Shah: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Good evening Sir. If I understand correctly, one, among growth areas that are there for the company, number one is airbags, which will help us from July this year and after that, you will have the new plants for alloy wheels in FY2021 and number three is controllers, which also in the last call you mentioned that you see good traction over there over the next two to three years. Sir, any other growth areas that I am missing out for the companies, which will help the Company, grow at a faster rate than the industry?

Sunil Bohra: Yes Jehan, so in addition to the alloy wheel, during this year we will also be commissioning few new plants and a few new products. One of them is a controller. Controller business, also we announced in the last call that this will be adding as a new product somewhere by end of this year. Another product is a sensor. We are setting up a facility to manufacture sensor in Pune. This facility also we are expecting to commission in the next fiscal and these three are pure new products, which will definitely add to market value. In addition, we have been continuously upgrading our existing products, be it switches or others in terms of how do we increase our overall kit value by upgrading or doing more R&D or giving more features. So these all things put together, actually gives you that kick which provides that delta to the industry growth.

Jehan Bhadha: Right, Sir, if I can ask on sensors, what is the capital outlay that we will be doing and ballpark over the next three odd years, what kind of revenues can we expect from here?

Tripurari Kumar: Yes, so the sensor plant is roughly Rs.110 Crores to Rs.120 Crores of capex overall. What was the second part?

Jehan Bhadha: No and what kind of top line can we expect three years out, maybe once the capacity starts.

Tripurari Kumar: Yes, the potential revenue of sensor plant is north of Rs.400 Crores.

Jehan Bhadha: Okay. Great Sir. Thank you.

Moderator: Thank you. Next question is from the Prayesh Jain from Yes Securities. Please go ahead.

Prayesh Jain: Good evening Sir, congrats on a good set of numbers. Sir on the alloy wheels, what kind of volumes did we do in this quarter?

Tripurari Kumar: I can give you the numbers because Bawal was operating close to its full capacity, which is around 120 and Gujarat was not operational much, so that is a blended number, approximately 120,000 wheels per month is the number as opposed to close to Rs.140 Crores of sales that we have done for Minda Kosei this quarter.

Prayesh Jain: Okay and what kind of margins we did?

Tripurari Kumar: Margin, we reported is around 18%.

Prayesh Jain: Okay and Sir with regards to the lighting business, what is the share of LEDs in the nine months?

Tripurari Kumar: Look, this is our estimated number, around 25% is what we are doing in LEDs, Rinder side.

Prayesh Jain: Okay and what would be this number probably last year?

Tripurari Kumar: This will be again around 15% to 20%. I will come back to you with an exact number, but it will be north of 15%.

Prayesh Jain: Thank you so much.

Moderator: Thank you. Next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Yes Sir. Good evening. Thank you for the opportunity. Just had a question on the products, so when we say controllers, we have our own controllers that we are doing under the standalone business, we have the iSYS controllers and now with KPIT also and now we have done small acquisition of controllers for telematics. So just trying to understand what is the difference between these controllers number one and number two like for example, you also have an airbag business and airbags also has probably a controller. So there are so many different controllers all in different businesses. Similarly in sensors, RPAS requires a sensor, we are already doing that and we have a Sensata business, there as well we are doing sensors and we have oxygen sensors business as well. So it would be good if you could briefly help us understand these different sensors in all different businesses. So is there a larger plan there or are they really different products and the names are just sensors and controllers?

Tripurari Kumar: So Mukesh, let us understand the controllers first and the range of controllers is very, very diverse. And that is why there are applications which are wide-ranging. For example, the controllers that we have acquired or the business that you have got into with iSYS is predominantly on the body control, which means the door closure, gate closure, pinch technology on the gate side, you have the CarPlay technology, which is for the infotainment controllers and you have the lighting controls. So those are the controllers that we have acquired from iSYS. And the kind of controllers that we will do with the technology that we have acquired from KPIT pertains to telematics, which you will find application in the buses and cabs immediately where AIS 140 has become mandatory. And we have certain smaller controllers, which we already doing like the lamp to leveling motor and others. So these are controllers that we have got into. The controllers is a very, very wide gamut, of which these are the focus areas that we are doing that is telematics. So these will be all together have market north of Rs.1500 Crores in India and we are quite hopeful that we will be having a market share of around 30%, target market share in that range. Now controllers like sensors similarly is, again, a very, very wide portfolio. And what we are doing is pertaining to some sensors that we have done with Sensata, which is an extremely high-end technology based on magnetic speed and position sensors. These will have BS-VI applications, including the cam crank and the position sensors, transmission sensors as well as the differential pressure and temperature sensors. So these are very specific applications, which will go into BS-VI. And then there are normal sensors like you said, position and distance sensor. While RPAS is not just one sensor, it is a full system. So while it senses the distance that gives you an alert, there is a camera, as you graduate up the value chain, you will get to see an eagle eye view. So it is a full gamut of value chain that we can do. So the TTE, which is going to do the RPAS now has the capability of doing a lane change, volume system. It has capability of doing automatic parking, summoning of a car. So there is a lot of activity within each of these verticals that we can do and they are very specific technology in those particular categories and that is why controllers, sensors and even actuators in future will be an important area of growth for the company.

Sunil Bohra: If I have to add to Trip. In the high-end cars you will on average find around 100 sensors.

Mukesh Saraf: Right. So actually the reason why I asked that question, like just going back to controllers, you explained that iSYS is doing door closure and those feel and telematics maybe buses and cabs. Now say in an airbag that we are already supplying by way of TG JV that also has a sensor and controller. So will we eventually start making those and currently who is making those, is there some synergy, that is the thing that I want to understand here?

Sunil Bohra: TG JV, airbag this TG. TTE is RPAS.

Tripurari Kumar: That controller is currently imported in India. Nobody is doing it locally currently. But given an opportunity and synergy that we can work together, that remains an area we can collaborate in the future, but not currently.

Mukesh Saraf: Okay, but as of now, that is not the plan. Not just in the airbags we have some oxygen sensors. Maybe a lot of those JVs we are right now importing maybe the actuators, sensor or controller, but is there a larger plan here by way of the iSYS or by way of Sensata that you want to localize those imports in each of those JVs. Is there some plan like that?

Tripurari Kumar: Mukesh, just one remark here. I think if you just cut across the portfolio of sensors or the controllers, the market share of the sensors and the controllers that we are is around Rs.1000 Crores, Rs.1500 Crores and if I look at the entire controllers or sensors, which go into the automobile, and everybody has to do that, the market size will be north of Rs.18000 Crores, Rs.20000 Crores. So that is a very big market and we understand that the technicalities and the capabilities are also different and that is why one acquisition is not sufficient to ensure that you will be able to do everything and that is why an iSYS and that is why a KPIT and that is why a Sensata. Otherwise, it is not overlapping product line.

Mukesh Saraf: Okay, understood Sir. That is it from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Tripurari Kumar: Thank you. I would like to thank you everyone for joining on this call. I hope that we have been able to respond to all your queries adequately. We look forward to interacting with you all in person in near future. For any further information, we request you to please get in touch with us. Thanks, and thanks very much for joining. Have a nice evening. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Minda Industries Limited, we conclude today's conference. Thank you for joining, you may disconnect your lines now.