



“Minda Industries Limited Conference Call to Discuss
the Merger of Harita Seating Systems Limited with
Minda Industries Limited”

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Moderator:

Ladies and Gentlemen, good day and welcome to the Conference Call of Minda Industries to Discuss the Merger of Harita Seating Systems Limited with Minda Industries Limited. 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 the date of this call. These statements are not the guarantees of a future performance and involves risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Sunil Bohra, Group CFO, Minda Industries Limited. Thank you and over to you, sir.

Sunil Bohra:

Thank you very much. Good morning friends. A very welcome to all the participants. On the call today I am joined by my colleagues Tripurari and SGA our IR Advisors. I hope you had a chance to look at the transaction update presentation that has been uploaded on the Stock Exchanges website as well as company website. I am extremely happy to announce Merger of Harita Seating Systems Limited with Minda Industries Limited. The board of director of Harita Seating Systems and Minda Industries at the respective meeting held yesterday approved a merger of Harita with Minda through a composite scheme of arrangement. The merger has potential to create significant shareholder value backed by superior business profile and performance. The transaction encompasses merger of Harita into Minda Industries and Harita Fehrer Limited which is a joint venture with Fehrer automotive one of the leaders in automotive seating business in Germany.

Harita along with its subsidiary has 12 manufacturing plants at strategic locations across India. Harita Seating is engaged in manufacturing, product development and sales of safe, ergonomic and reliable driver seats and passenger seats. Harita Seating is a leading Tier 1 seat supplier across automotive segments. The key customers include TVS, Royal Enfield, TAFE, Daimler, John Deere and Tata among others. In FY17-18 Harita Seating recorded a consolidate turnover of Rs. 905 crores with an EBITDA of Rs. 87 crores resulting into a PAT (after minority share) at Rs. 38 crores. In terms of their revenue split in segments the two-wheeler segment and foaming are roughly 25% to 30% each and the commercial vehicle are around 20% and tractors, buses, passengers and exports within range of 7% to 10% each. As you would have noticed the board of both the companies have approved the following exchange ratios based on the recommendations of joint independent valuers which is 152 fully paid up equity shares of MIL for every 100 fully paid up equity shares of Harita or 4 fully paid up non-convertible redeemable preference shares of Rs. 100 each at a premium of Rs. 21.25 of MIL for every fully paid up equity share of 10 held in HSSL.

If all the shareholders opt for non-convertible preference shares, then implied equity value is around Rs. 377 crores and if all the shareholders opt equity shares there will dilution of around 4.5%. The management of both the groups believe that this merger would create significant value

for all the shareholders and various stakeholders as well. There are some of the highlights I will just try and list out which is starting from product synergies wherein MIL will diversify its product offering and help leverage the deep R&D capabilities to ensure a robust pipeline of new product launches and improve realization per vehicle across all segments and also improve revenue mix in CV segments. It will also bring customer synergies wherein it will help leverage the long standing and entrenched customer relationships of Minda providing access to new complimentary customers.

In terms of technology they do have strong technology partner Fehrer based out of Germany and we intend to work with them and also see if we can grow into the PV market which is not the case as of now.

In terms of synergy through the aftermarket and sales channel we will leverage upon our strong aftermarket channel of Uno Minda and see if we can augment the growth further. Overall the transition is EPS accretive to the Minda shareholders. The merger of Harita with Minda will generate additional value for Harita shareholders as well by providing access to diversify product mix so as to deliver significant near term and long-term growth. The amalgamation will offer immense opportunity to diversify portfolio and offer product that are most relevant to consumers. The association will have capabilities to meet and exceed consumer's evolving needs.

We are confident that the merger of Harita with Minda will thus be ideal in supporting collective growth aspiration and approaching the market with future ready products. We believe the merger will provide a win-win situation for all the stakeholders.

With this I will now open the floor for Q&A.

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

Ashutosh Tiwari: Firstly, two options are provided – one is the shares swap and the other is the preference shares so by what time we will get clarity whether it will be a share swap or preference shares?

Sunil Bohra: Once the scheme is approved by both the set of NCLTs, it will go for the shareholders approval where they will have option to choose what do they want, whether they want preference share or equity share and that also as you would have observed from the presentation at two stages of promoters and management to analyze.

Ashutosh Tiwari: Secondly, we were not present in seating space but we are targeting 4-wheeler segment because that is a good revenue for Minda Industries per se, so in what timeframe you think that you will probably be able to convert some of the customers in the 4-wheeler seating area.

- Sunil Bohra:** I will answer that question in two parts Ashutosh. First as you would have observed that Harita has been part of TVS family and because being attached to a family who is already in 2-wheeler there is a huge opportunity to reach to the other 2-wheeler manufacturers in the country where we have very strong relationship. So we believe that Minda coming on board will immediately provide that access and growth potential as we have just said Fehrer is very strong in PV as well in Germany. They do have light weighting technology, etc., and supplier to the large OEMs globally. We intend to work with them and bring the 4-wheeler seating kits also in India and definitely those contours of the transaction will be planned out once we consummate this transaction.
- Ashutosh Tiwari:** So believe that 2-wheeler is probably low hanging fruits for us sorted there into the space limited to TVS right now?
- Sunil Bohra:** That is one plus whatever relationship we have with other OEMs where we will definitely be able to add value other than 2-wheelers as well.
- Ashutosh Tiwari:** And this 2-wheeler seating in the company is part of that JV or it part of standalone?
- Sunil Bohra:** Once it merges, it will be a division of Minda Industries.
- Ashutosh Tiwari:** No, I am asking currently that 2-wheeler seating part of the standalone entity or it is part of JV?
- Tripurari Kumar:** So 2-wheeler is part of the JV and CV is part of the listed entity.
- Moderator:** We have the next question from the line of Jinal Fofalia from Turtle Star PMS. Please go ahead.
- Jinal Fofalia:** Sir I had couple of questions what is the duration of this preference share that you are going to issue and at what price have you planned to redeem that or you have any special thoughts in mind?
- Sunil Bohra:** So that is part of the scheme Jinal. So the duration of preference share is 36 months and it will be around 7.5% YTM yield to maturity.
- Jinal Fofalia:** Will they get listed?
- Sunil Bohra:** No.
- Jinal Fofalia:** Second question is what is the dividend that you have it in mind and if it is 7.5 then why it is 0.01% preference share that is confusing?
- Sunil Bohra:** Coupon is 0.01 however it will be redeemed at premium which will result into an overall yield at 7.5%.
- Jinal Fofalia:** Sir could you come back again I am confused?

- Sunil Bohra:** So coupon as you said Jinal is 0.01% however once you hold for three years and since it is not listed you will hold for three years when it is redeemed at a premium which is equivalent to 7.5% effective yield.
- Moderator:** We have a next question from the line of Rishikesh Huddar from Anand Rathi. Please go ahead.
- Rishikesh Huddar:** Could you help me with the market segment that Harita Seating is in today and who are the players in passenger car if you can help me understand that?
- Sunil Bohra:** So Harita is not currently not into PV they are mostly in to 2-wheeler and CV and in 2-wheeler also their major customers are TVS and RE. Among commercial segment it is mostly TAFE, Tata, Daimler, John Deere etc.
- Rishikesh Huddar:** So in terms of market share who will be supplying to the other top players and 2-wheeler how was the market positioning for Harita and this entire 2-wheeler space?
- Tripurari Kumar:** In terms of the market share in various business the MHCV segment contribute close to 53% market share, tractors will have 33% market share and busses will be close to 15% market share. Two-wheeler the current company is strong with two large customers which are Royal Enfield and TVS group. 90% to 95% of the requirement is met by this company.
- Rishikesh Huddar:** And if I look at the philosophy of your business that you always look at diversifying product and ideally look at business that earns better profitability and ROC therefore it becomes rich in your product mix, how would you look at this business given that this earns a little lower than what your existing margin is I agree the other aspects of cost overheads are well in control but from real product margin perspective it looks to be little lower compared to your existing product profitability, so what is the plan that you have to scale it up and how do you think you will do this up?
- Sunil Bohra:** I think your point is right, the margin is little lower than average margin but if you see overall our asset turn is something around 1.9 to 2x and the enterprise value which we will be buying this company their asset turn is more than 3. So in terms of profitability it will be actually be same or higher in absolute terms in terms of percentage return it will be actually meeting our norms.
- Rishikesh Huddar:** Does the technology partner of Harita Seating JV have any plans to enter into PV?
- Sunil Bohra:** So Harita independently do not have any plants but we had initial discussion with their technology partner and we are working out strategy to come out in PV as well and as I said that while we are in the very initial stages of discussion where the interest is there from both the sides the exact structuring shall be finalized in due course.
- Rishikesh Huddar:** So you could help me with a capacity that they have?

- Tripurari Kumar:** No, because it will depend on the number of seats. What happens there are different variety of seats in it so it is very difficult to give the number, but in terms of SIAM data we are doing close to 16.6% of 2-wheeler and close to 13% of 3-wheeler so you can multiply accordingly.
- Moderator:** We have a next question from the line of Ramakrishnan Seshan from Spark Capital. Please go ahead.
- Ramakrishnan Seshan:** Sir my question is on the royalty structure if any that is current prevalent in Harita with respect to royalty payment to the technology partner?
- Tripurari Kumar:** There is a small payment which is not exactly linked to these revenues as a percentage and there is some fee which is paid to the technology partner.
- Ramakrishnan Seshan:** Sir one more thing that I noticed I just had a cursory glance at the financials of Harita, the fixed asset turnover is rather high at almost more than 4x, so is this the norm in this industry or is there a specific business model that Harita follows up getting more outsourcing done which is also reflected in low margin?
- Sunil Bohra:** I am not sure about if there is any norm but at the end of the day it comes down to the ROC and ROE. so as Vijay asked this specific question that if there is a low profitability how does it fits into our strategy so that is what we said that the low profitability in terms of percentage to revenue it is fine but once you factor the asset turns, it definitely will give better ROCE and better ROE.
- Ramakrishnan Seshan:** Sir any sense on the CAPEX plans going forward once we try and get in PV as well as in a mix in a bigger way?
- Sunil Bohra:** It is too premature I would say Ramakrishnan may be at some point in time once we are closer of the transaction, we will be able to provide a better picture.
- Ramakrishnan Seshan:** Sir my last question is some estimate of the increase in the kit value or rather the kit value currently in say PV, CVs and 2-wheeler the seating would comprise approximately?
- Tripurari Kumar:** It will depend, approximately Rs. 300 in buses and it could go as much to Rs. 30,000
- Moderator:** We have a next question from the line of Prateek Poddar from Reliance Nippon Asset Management Company. Please go ahead.
- Prateek Poddar:** Sir just wanted to understand how much time will it take will it take you to integrate Harita with you in terms of facilities, management, thought process and all?
- Sunil Bohra:** So in terms of regulatory timelines as we all know since there are two NCLT involves both Minda and Harita being listed entities there are lot of approvals which has to be taken in process and overall it will take roughly around 9 to 10 months to sort of close the transaction and

thereafter in terms of integration as we would have always seen whatever entities we have acquired in past be it Clarton in Spain or iSYS in Mexico we have always like that the existing management to continue driving the process and the business and we managed the company mostly at the board level or at the senior management level so that integration should not take any time.

Prateek Poddar: And sir the cross-sale opportunities how fast can you realize that both I mean Harita gaining as well as Minda gaining in terms of products?

Sunil Bohra: I think we will definitely use this time of next 9 to 10 months while we get all the approvals in sort of getting access to the newer customers, we will work jointly with Harita how do we get access to the newer customer and then we said the ball rolling now rather than starting it sometime next year.

Prateek Poddar: And just to understand that why were two options given?

Sunil Bohra: It is I think more it is an interest of Minda because if you see that in terms of absolute enterprise value because if we are able to go at 100% preference share it will lead to less dilution

Prateek Poddar: So ideally sir that is what I was wondering a preference share would have been a better alternative right so where were two options given to I mean what is the rationale behind giving?

Sunil Bohra: I think to make the scheme fair I think it is better we leave on the Harita shareholders because they are the one who are impacted and get merged into Minda. So we thought it is better that if we give no options, but at the end it is an option with them and for them the value also gets protected at a price they opt for preference share.

Prateek Poddar: And sir just one question Harita talks about exports as a big opportunity so could you just give us a bit of color over there how would exports ramp up for Harita?

Sunil Bohra: It is a big opportunity and they have been working in terms of expanding their capacities also and the opportunity initially is around 10% to 20% but I am sure when we will work jointly with them we will see whatever is the maximum potential capacity because we already have a base in terms of 2-wheeler in South East Asian market in Indonesia and Vietnam where we are having switching and lighting, etc., so which will immediately provide access to our existing customers. So it will be little premature again for us to address how much exactly it will be but definitely we will add value in terms of whatever visibility they have, we will be able to sort of bump up on that.

Prateek Poddar: How much of revenues of Harita comes from exports?

Sunil Bohra: I am not specifically aware of current existing customer but the export is roughly around 10%.

Moderator: We have next question from the line of Siddhartha Bera from Nomura.

- Siddhartha Bera:** Sir my first question is historically we have done a lot of acquisitions JVs in upcoming technological areas, so I just wanted to understand in case of Harita Seating where is the growth opportunity do you see in the longer term except that industry will keep growing and probably you can add more client but on the product side do you see any strong scope of growth in premiumization or I just want to understand the growth outlook?
- Sunil Bohra:** Seating as you all know is a very critical part in automobile and it is a critical and safety products so what we would work is Fehrer also we will like to bring lot more automation and control in the seating system you would have observed that there are lot of technologies being evolving in terms of consumer comfort and in terms of moving around seats and getting extra technologies built into the seats, light weighting the seat there are lot of opportunities in terms of improving or enhancing the premiumization aspect of the seating as well.
- Siddhartha Bera:** So can you guide us like per vehicle seat content how much can it improve say if you see for a premium vehicle how much is it now and where is Harita right now at this stage?
- Sunil Bohra:** We will take some time to answer some specific thing, I think it will take some time because to answer how much opportunity is there in fact we would also like to work more closely with the Harita management.
- Siddhartha Bera:** And existing management we will continue after the acquisition or how do you see the current structures?
- Sunil Bohra:** That is what our intention is and that is what I said a little while back also that we definitely would like the existing management to continue and that has been our practice and that has been our practice in all our fast acquisitions as well because they know the business but I think it is more a guidance and adding the strength of Minda and relationship and the aggression of Minda how do we move the ball faster.
- Siddhartha Bera:** And lastly, I mean if I see Harita financials the margins have been much low and ROAs and ROCEs is very good, so any color can you give on how much is the outsourcing for this entity, does it manufacture everything in house or why is the margin so low for the company?
- Sunil Bohra:** I think mostly as of now it is in house because the Fehrer also has it foaming technology and they have been allotted R&D inside the company in terms of foaming technology and that is all being done in house.
- Tripurari Kumar:** There are certain components predominantly on the steel fabrication parts which are outsourced which will comprise close to 15% of the seat value.
- Siddhartha Bera:** What will be the import for this entity how do you see that changing going ahead?

- Tripurari Kumar:** Actually, players like BASF are already manufacturing this in India the components which goes into foaming , so we do not see direct impact on the import while this continues to be driven by the crude prices directly or indirectly.
- Moderator:** We have next question from the line of Harsh Doshi from Analyze India. Please go ahead.
- Harsh Doshi:** I wanted to know the percentage return on the preference share on a per annum basis for Harita shareholders?
- Sunil Bohra:** Yeah it will be a 7.5% yield.
- Moderator:** We have the next question from the line of Saral Seth from Systematix Shares & Stocks. Please go ahead.
- Saral Seth:** One question could you highlight about the gross block, net block in the working capital for Harita?
- Tripurari Kumar:** 60 days is the average working capital days that they have on the creditor side and on the customer side it is approximately 55 days and at the subsidiary level there is no borrowing, on the flagship entity which we are acquiring have a borrowing close to Rs. 25 crores which is all short term.
- Moderator:** We have next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** I have one more question on the export side if I look at last year annual report the export Harita is saying the export was around Rs. 63 crores which is almost doubled in FY18 and majorly the export to USA for tractors and all so just wanted to understand whether the export directly happened to the customer or after market or it is through Fehrer basically?
- Tripurari Kumar:** It goes into the customer directly for example they have John Deere, they have 10% SoB with John Deere and they also have business with New Holland, so predominantly John Deere is a major customer there for exports.
- Ashutosh Tiwari:** And on the Fehrer globally where would they have higher shares in terms of passenger cars or CV tractors?
- Tripurari Kumar:** CV and passenger vehicles both. They are more strong on the CV as well as passenger vehicle.
- Ashutosh Tiwari:** So they would supply to companies like Volkswagen and all basically in the Europe?
- Tripurari Kumar:** Yes and BMW also.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments sir over to you.

Sunil Bohra: Thank you everyone for joining on the call. I hope we have been able to response to all your query adequately and look forward to interact with you all in the near future. For any further information request you to please get in please get in touch with us.

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