



“Minda Industries Limited Q4 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Minda Industries Limited Q4 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 risk 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 for an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sunil Bohra, Group CFO, Minda Industries Limited. Thank you and over to you Mr. Bohra!

Sunil Bohra: Thank you very much. Good afternoon and a warm welcome to all the participants. On the call today, I am joined by my colleague, Tripurari Kumar, SGA, our IR consultants. I hope you had a look at our financial results and presentation that is uploaded on the stock exchange 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 and clarification.

As we all know, the auto industry for the year 2018-2019 had been a mixed bag. We have witnessed weak demand environment in the second half of 2018-2019 owing to regulatory challenges, changes like high insurance costs and transition from BS IV to BS VI, related purchase postponement, liquidity tightening, NBFCs started with IL&FS crisis, hardening of crude prices and lower-than-expected GDP growth.

IIP for March 2019 has contracted by 0.1% and has hit a 21-month low mainly due to contraction in manufacturing activities whereas for the full year, the factory output a three-year low at 3.6%. The consumer durable output, which reflects the urban mode also fell by 5.1%, indicating subdued consumer sentiment; however, the inflation rate for the month of April had increased marginally to 2.92 but still below the expected target range.

As per SIAM, the two-wheelers grew by 4.9%, three-wheeler by 10%, CVs by 2.7% and CVs by 18% in 2018-2019. The auto sector can generate up to 300 billion in annual revenue by 2026, creating 65 million additional jobs and contributing over 30% to India's GDP. Over the medium to long term, we expect the sector to grow in the range of 6% to 8%.

On the onset of the new financial year 2019-2020, the automobile sales have been witnessing a weak demand environment, and most OEMs have reported degrowth in the year-on-year in April 2019. Accordingly, the current financial year, H1 is likely to be subdued and a recovery is expected in H2 on

hopes of normal monsoon, launch of electric vehicles before the deadline, coupled with prebuying launch of new models and prospects of a stable government in the center.

Some leading OEMs have already announced plans to put out the diesel vehicles in small vehicle segment, which would need close observation on resultant impact on the sales. The recent production cuts have also ensured that the high inventory levels, which the sector was, flooded with is coming back to normalcy. Leading PV OEMs have also started adding safety features in line with government notification, which has also led to increase in prices, including this model auto K10 Also, some adverse factors like rising fuel prices, rupee depreciation could also impact growth to some extent. We are reasonably confident that our company will continue to outperform the industry as we continue to focus on increasing our kit value and market share with all OEMs.

We are glad to inform that our new R&D center is now ready with around 150 engineers working round the clock. It is an important milestone in our journey of being self-reliant on the technology needs.

Now coming to our performance. At the outset, we are very pleased to inform you that the Board of Directors has recommended a final dividend of 32.5%. The total dividend for the year is 55%, which corresponds to Rs.1.1 per share as against Rs.0.93 per share. Overall, the full year dividend is higher by 18% year-on-year.

At a consolidated level, during FY2019, the company registered revenue Rs.5,908 Crores with a growth of 32% year-on-year from Rs.4,471 Crores in FY2018.

The EBITDA for FY2019 was at Rs.725 Crores, higher by 36% year-on-year from Rs.534 Crores in FY2018. EBITDA margin was at 12.2% compared to 11.9% in FY2019, an expansion of 33 basis points. These margins have been achieved on the back of continuous improvement in our operations, higher capacity utilization in the new businesses like MKA, MRPL, Rinder etc. We believe these margin levels are sustainable, and we continue to focus on managing costs and ensure profitable growth.

The profit before tax before exceptional item for FY2019 was at INR 455 crores, higher by 24% year-on-year from Rs.367 Crores in FY2019. And profit after tax attributable to MIL grew by 12% at Rs.286 Crores in FY2019 as against Rs.256 Crores in FY2019. These numbers are normalized adjusted for exceptional items.

Coming to product lines. Switching Systems segment achieved revenue of Rs.1580 Crores for FY2019, contributing about 35% of our total consolidated turnover. The EBITDA margin in this segment was around 12%.

The Lighting division achieved revenue of around Rs.1,164 Crores for FY2019, which contributes 25% to our total turnover. The EBITDA margin in this segment was around 9.9% this year.

The Acoustic division achieved revenue of Rs.718 Crores for FY2019, contributing 16% to our total turnover. EBITDA margin in this segment was around 8% in this year.

Moving on, you will notice our new segment called Light Metal Technologies, which achieved revenue of Rs.908 Crores for FY2019, contributing to 15% to total turnover. The EBITDA margin in the segment was around 23% this year.

Other product lines have also started contributing and are showing good traction. As a whole, we achieved revenue of Rs.754 Crores for FY2019 from other products and EBITDA margin of 10%. Several products among these are new business with potential for significant growth in coming years.

In terms of our projects update, our two-wheeler and four-wheeler plant is on track with the ground activity started and on scheduled for first production in April 2020. The annual project original perception is our sensor project. The HTS line, which is high-temperature sensor line, is under installation, expected to commission by end of this calendar year and mass production expected in Q4 of this fiscal FY2020.

We are happy to inform that for one of our BS VI petrol sensor, we already received order from one of the leading OEM. And work on cam and crime sensors is progressing on ordering the line.

In terms of control division, the plant activities construction is at a full phase with the first production is expected in Q2 of FY2020.

In terms of major awards, and accolades among the major awards and accolades received by the company includes the National Intellectual Property Award for the year 2019 in the category of top Indian Company/Organization for Designs. We also received Overall Excellence Award from MSIL. Our Lighting division has won a Quality Award from Toyota and ROKI Minda has received Best QCDDM Performance Award for FY2018-2019 from HMSI.

As a major step towards simplification of group structure, the board also approved the merger of four of its wholly owned subsidiaries, which is Minda Distribution and Services Limited, Minda Auto Companies Limited; Minda MJCL and Minda Rinder. The scheme shall be subject to necessary regulatory approvals, and we expect to close this within FY2020. The said merger is expected to bring a lot of operational and strategic synergies and create value for all our stakeholders.

That is all for my side, and now we can open the floor for Q&A.

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

Ashutosh Tiwari: Sir, what was the revenue for Mindarika in the current year?

Tripurari Kumar: Mindarika recorded total revenue of Rs.761 Crores for FY 2018-2019.

Ashutosh Tiwari: And last year was how much?

Tripurari Kumar: 706 Crores.

Ashutosh Tiwari: Also, we have seen a very sharp increase in the interest and depreciation charges in Q4 versus Q3. So is there any one-off over there or the reason behind the sharp increase?

Tripurari Kumar: We have borrowed close to 130 Crores in Q4 so that is why you see increase in the interest cost?

Ashutosh Tiwari: This is towards what?

Tripurari Kumar: This is towards the financing of KPIT and Sensata and certain outlay towards sensor projects.

Ashutosh Tiwari: The depreciation cost?

Sunil Bhora: So I would just add something on interest also. In interest, there was also a little bit of exchange again in Q3 that you do not see in Q4, though it is not material. But when you say delta, it is not material. And in terms of depreciation, if I take a full year view, in the last full year, there has been almost Rs.400 crores plus assets for the project which have been capitalized, ranging from the new plant at Gujarat from Minda Kosei, Minda Rika, then lighting Chennai plant, Minda Kyoraku plant. There are a lot of capacities, which we have created, and good part of it has also come online in Q4. Like, for example, Minda Kyoraku has been commissioned in Q4, alloy wheel plant was commissioned somewhere in Q3, so you have full impact in Q4. So I think the benefit of all this while the capacities are created because of the muted market environment, we are not able to realize the full capacities. But once the market picks up, we are ready for the next phase of growth with all the capacities in place.

- Ashutosh Tiwari:** Okay. And can you share the revenue from sensors and controllers put together in FY2019 and with KPIT also coming up with full sales in this year and maybe in 2021 you will the benefit of BS-VI sensors as well. How is the revenue performance profile is going to move for next 2, 3 years?
- Sunil Bohra:** Last year, revenue was something like Rs.120 Crores, Rs.130 Crores. This year, we are expecting close to Rs.130 Crores to INR 150 Crores. And yes, we are almost Rs.300 Crores plus with a total potential if I have to see four, five year down the line from this business only, it is around Rs.700 Crores. So it is going to be a huge value creation for us, both in terms of profitability and also in terms of top line addition. And so high tech product, as I said, total impact we already started getting business for BS VI sensors, which is a great achievement from the sensor business. So controller plant is under construction, so we do not have any controller operation. So as I said, we will start production in Q2 of FY2020. And coming to i-SYS, i-SYS last year sales was something around Rs.50 Crores. And this year, the number which I am saying is full year sales, so obviously financially you will see prorata for 6 months, which is around Rs.34 Crores. And 2019-2020, we are not expecting any material movement in sales in i-SYS.
- Ashutosh Tiwari:** Okay. And how much capex we have done in FY2019? How much the plan is for FY2020 and FY 2021?
- Sunil Bohra:** FY2019, we did capex of close to 450 Crores and FY2020, the current estimate based on the projects, which are announced is around 400 Crores.
- Ashutosh Tiwari:** 400 Crores?
- Sunil Bohra:** Yes, that is right.
- Ashutosh Tiwari:** And lastly, on TTE, I think we are already seeing the launch of the auto new model reverse parking system. So what is the content for supplying product?
- Tripurari Kumar:** Yes. So TTE, the content is, like we said last time, as against an expectation of 1,250 per sensor, which has come down to 750 for the entry-level. So, it is just three sensors and a buzzer, originally it was came with like 5 sensors and a buzzer, now they have reduced 3 sensor and a buzzer.
- Sunil Bohra:** That would be only for the entry level like Alto, for Swift and all it will be like that only?
- Tripurari Kumar:** That is right. High-end models, they have more sensors than 3. A base model will have 3.

- Tripurari Kumar:** And which is becoming mandatory and which is changing the scheme of things.
- Sunil Bohra:** From July it will become mandatory.
- Ashutosh Tiwari:** So, what kind of market share we are looking at in this division reverse parking systems?
- Sunil Bohra:** So our vision, as you know, is always to get 30% market share. That is what we are hoping to reach in the next few years.
- Ashutosh Tiwari:** Thank you a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.
- Basudeb Banerjee:** Thank you. Few questions; one, as you said that your endeavor is continuously to outpace industry growth. And if I see your last 6, 7 years, you have never gone below single-digit growth at consolidated level. So if OEMs themselves end the year at a negative level or hardly low single digit, outpacing OEMs means even if you grow at 5%, 6% in fiscal 2020, that means outpacing. So taking those adverse scenarios into consideration, any growth figure in your mind for the full fiscal 2020 for the existing portfolio leaving aside two-wheeler alloy wheel and Harita?
- Sunil Bohra:** Yes. So Basudeb, excluding Harita and Alloy wheel which is not , expected to add significantly in this year. Alloy wheel first production, we are expecting in April of 2020, so nothing to add in this year. And Harita also likely expected time line is in Q4. So excluding these two, we are confident of having a double-digit growth. Obviously, you will appreciate that good part is linked to our OEM sales. The OEMs, which all have given their numbers, it is all been around 5% to 6% growth for 2019/2020 or 2018/2019 and backed on which we are confident will grow double digit.
- Basudeb Banerjee:** So I'm trying to understand like the outlook, which you are getting from these leading OEMs, say, two, three months back, has that outlook changed over these last two, three months because of the leading carmaker is like declining by 10%, 15% and might do for next few months also?
- Sunil Bohra:** So Basudeb, I think if you see the numbers, I think we all saw the numbers are in double-digit negative for both two-wheelers and four-wheelers. But what message we have been getting is I think it is mostly because of elections and its temporary. It is not sustainable because the cash in the system, for example, is not allowed to be carried because of elections, because of stronger control, etc. Even if one wants want to move 30-40 thousand cash they cant. It is a kind of vigilance , which is there in the system. So

the large part of sales is also what we call impacted because of it. Another reason if you will see or observed I remember in one of the calls, one of the leading two-wheeler OEM manufacturer said that inventory levels are more than 100 days. If you see the 100 days has come down to 50 to 60 days. So what numbers we see of OEM volumes are their production numbers. But with inventory coming down, I am sure that the actual registration number is not that bad because the inventory, which has been absorbed, obviously has been sold.

Basudeb Banerjee: Sir, next question is like this quarter specifically, 8% year-on-year consolidated growth and you have maintained the margin. So down the line with growth anyhow being closer to this level. And lower-margin businesses like Harita and two-wheeler alloy wheels coming in 2021. So how one should look at your consolidated margin? Are you confident of retaining 12.5% or to improve? Or there can be some hurdles to that?

Sunil Bohra: So as we said a while back that the EBITDA margin, if you remember at the start of the year, we have guided a range of 12% to 12.5%. And when we entered the year, it was a different mood altogether compared to when we exited. So we are happy to say that we have actually been able to maintain that range. And we are working on sustaining the EBITDA margin of 12%, 12.5% range. And we continuously work to improve on them by choosing appropriate product mix. And that would be our target range.

Basudeb Banerjee: Sure. And in the presentation, as you said that you have mentioned light metal as a whole entity. Within that, can I know what was four -wheeler growth and margin for the full year?

Tripurari Kumar: If you look at the alloy wheel number, the number is around Rs.594 Crores as against Rs.311 Crores reported last year.

Basudeb Banerjee: And margin?

Tripurari Kumar: Margin, we have indicated in the presentation, it is around around 23%.

Basudeb Banerjee: 23%. And if we look at your balance sheet, related stuff, if I see receivables days increased quite a bit. Any specific reason will it sustain or it is one-year phenomenon, how to look at that? And second thing is in balance sheet, I can see some Rs.200 Crores increase in liquid investment. Whereas full year, that has also increased. So this Rs.200 Crores investment, is that reversible with the debt? Or am I missing something?

- Sunil Bohra:** No, so you said 2 things. One, you said on number of days of receivables. So there is no concern in terms of receivable. There might be some tooling income etc., which confirmation from the supplier coming at the end of the month, and the receivable time is obviously 45 days and some Pis practically which we have got. So obviously they are normal, nothing abnormal in terms of receivables. The other thing you said about debt, right?
- Basudeb Banerjee:** Debt and also investments at consolidated investments must be liquid investments. So investments also increased by Rs.200 Crores and debt by Rs.400 Crores, so how to look at?
- Sunil Bohra:** Yes. So investment is non-current investment, yes, which is predominantly in TG Minda, which is additional Rs.137 Crores in this current financial year, which is more than last year. As it is an associated company, we would not see it in the consolidated entity. That is the reason.
- Basudeb Banerjee:** Okay. And what is your view reducing back the debt which got added? So will that be the key objective?
- Sunil Bohra:** So if you see our debt to equity, our net debt equity is around is around 0.5, maybe less than 0.5 on a consolidated basis. So first is obviously, we are not at an alarming level. But definitely, our current year idea of the plan cash flow for projection is that we will reduce some debt based on the current estimate for full year and the capex cycle.
- Tripurari Kumar:** Adding to what Mr Bohra said, by the year end we will also be able to add Harita and Harita being an entity completely, I think the number will be more favorable than we see currently.
- Sunil Bohra:** Yes. But difficult to say Harita whether the shareholders will opt for equity or preferential, so that we will come to know only at a later stage.
- Basudeb Banerjee:** And did I miss last time, if I remember when we interacted, capex figure was I suppose was on the higher side. Was there any capex cut as such or if you can highlight?
- Sunil Bohra:** No. I think what we have announced is we are progressing on the same part. So for this year, we have announced two-wheeler, alloy wheel, controllers and sensor project, so which is in line. And towards December, we announced KPIT and Sensata. So certain investments of KPIT and Sensata are still to work, but they are mostly in line what we had indicated earlier.
- Basudeb Banerjee:** So, basically Harita plus 400 Crores that how one can look at the overall capex for 2020?

- Sunil Bohra:** Yes and Harita being a transaction of CRPS as well as equity share, so it is going to be favorable to the company, whichever option we exercise definitely.
- Basudeb Banerjee:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sidharth Bera from Nomura. Please go ahead.
- Sidharth Bera:** Thanks for the opportunity. Sir, my first question is on your switch business. This business in this quarter seems to have fairly declined even compared to the last quarter the revenue what we have seen in the last few quarters. So can you just highlight, I mean, what has actually happened in the switch segment, which business is seeing some issues, because if I compare the PV and 2Wheeler production numbers, they are actually slightly higher compared to what we have seen in Q3. So just wanted to get some understanding on what is happening here.
- Sunil Bohra:** Yes. So in the switch business, Mindarika, which is the what we call four-wheeler business, that had more impact off the volume cuts than the two-wheeler, and that is what has also sort of pulling down our average margin as well.
- Sidharth Bera:** Okay. So no market shares loss?
- Sunil Bohra:** No.
- Sidharth Bera:** So what is the growth outlook here, Sir? Shall we expect that if the industry grows, say, 5%, 6%, we can grow at, say, 8%-9% for the next year or?
- Sunil Bohra:** Yes, may be little more.
- Sidharth Bera:** And Sir, in in case if I actually see the production numbers for passenger vehicles is up close to 15% compared to in Q4 compared to Q3. So I was confused on why the revenue has fallen Q-o-Q despite the volume number going up quite a ways?
- Tripurari Kumar:** You are saying our numbers have fallen Q-on-Q?
- Sidharth Bera:** Yes.
- Tripurari Kumar:** No. Because there are two things one is there were certain, because for us Maruti was a major customer at least in the four-wheeler segment. So there we have the inventory levels till December were higher,

which led to a lower production number, which you saw from January, February and March. That could be the only reason. From this quarter and then we should expect more alignment in that number. The number for Mindarika in Q4 is around Rs.178 Crores as against Rs.201 Crores last year.

Sunil Bohra: Our Market Share is not dropping, so it is clear.

Sidharth Bera: Secondly Sir, can you also indicate in Kosei alloy wheels, how is the ramp-up you are seeing? How is the utilization Gujarat plant? And what is the alloy wheel sales you are targeting for FY2020?

Sunil Bohra: So if you see, our last year sale in alloy wheel business, our last year sales was Rs.300-odd Crores, Rs.310 Crores, something like that. And this year, we are running at close to Rs.600 Crores, which is almost double. Our Gujarat plant is stable now and is producing almost like 40000, 45000 wheels per month and almost 100000 wheels in Bawal, which is beyond capacity. So our alloy wheels is actually running at good volumes.

Sidharth Bera: So what is the average target we are expecting for FY2020? Have we any visibility on that one?

Tripurari Kumar: So we are very close 594. And we should target a growth of 15%, 20% provided a sector also supports with mid- to high single-digit growth.

Sidharth Bera: Another thing on your horns acoustic segment. So here if I see quarterly the revenues have improved, but the margins have gone up sharply from low single digit to close to double-digit level, any particular thing that happened in this quarter in this business?

Sunil Bohra: Yes. So our overseas operations, Which is Clartron in Spain. That has been well in Q4 as compared to Q3, and this is what has led to better margins on our acoustic businesses.

Sidharth Bera: Okay. Any particular reason? And is it sustainable, just to understand that.

Sunil Bohra: Yes. So if you see the third quarter, our overseas business did a sale of Rs.98 Crores. And Q4, they did sale of Rs.117 Crores. So it is a clear increase of 20% in quarterly volumes. And current projection is that we should be able to maintain this run rate.

Sidharth Bera: Okay. Are we targeting this run rate going ahead for Clartron?

Sunil Bohra: Yes.

- Sidharth Bera:** So can you broadly indicate what is the total revenue for Clarton this FY2019?
- Sunil Bohra:** Around 430 Crores and you will also appreciate that this is given the fact that there is depreciating Euro in comparison to last year.
- Sidharth Bera:** Sure and if I see your profit from JV it has actually moved up sharply compared to last quarter, which was only around 2 Crores, so can you just indicate also here, which subsidiary has helped and what is the outlook for that going ahead?
- Sunil Bohra:** So, last quarter we said that two subsidiaries, which was Minda Onkyo and TTE DAPS both have pulled our profit down on a total basis, so both have done better in Q4 compared to Q3.
- Sidharth Bera:** I mean is it more sustainable and what is the run rate?
- Sunil Bohra:** I would say not only sustainable. These companies should do much better in the coming quarters. Because like Minda TTE, the R pass is getting mandatory from July, so we already started seeing uptick in volumes, which should go significantly higher in Q2 onwards. And Onkyo, which is speaker JV. This has also stabilized and now running at a much better volume compared to the last year. So in fact, not only sustainable, we should expect much better number in the coming quarters.
- Sidharth Bera:** Okay. But any number you can share? I mean, what is the target we have for these businesses, the growth or the profitability?
- Sunil Bohra:** They are just nascent businesses, give us some time. Once they mature, we will be able to give you much better visibility.
- Sidharth Bera:** Sir, on the capacity utilization across segments can you indicate what will be it approximately most of your key segments?
- Sunil Bohra:** So currently, our capacity is obviously not fully utilized. Earlier we were saying around 85%, 90%. But if I take a realistic number today, what we saw a couple of weeks back from last year, it was around 80% and in some businesses it is 75% also.
- Sidharth Bera:** And that will be, which business, Sir?
- Sunil Bohra:** So, obviously in terms of four-wheeler switching business the capacity utilization is lower than average. You know we have added recently the new capacities in Gujarat also as not we in that range.

Sidharth Bera: So, the 400 Crores capex what will be broad segment where you are spending that and can there be a scenario that it is lower?

Sunil Bohra: So, going forward the 400 Crores of capex what we have said is mostly alloy wheel, the project, which has already been announced of around 300 Crores to 325 Crores, controller, which is around 84 Crores and sensor around 125 Crores and all three are going to be significantly spent in coming year only and this is excluding the sustaining capex, which is around 100 Crores odd, so 400 includes that.

Sidharth Bera: And the sensor and controller business should also have the KPIT revenues of close to 100 Crores coming in this year that is right?

Sunil Bohra: That is right. The current market conditions will have some impact on that because when we have come out with that 90 to 100 Crores number in January, the market was little different and today it is little different.

Sidharth Bera: But that has already started coming in from, I mean that would start coming in from Q1 or there will be some more specific?

Sunil Bohra: Most of them are coming by the end of Q1.

Sidharth Bera: Lastly, in Haritha if I see that, I do not know if you can help me with the numbers, but there in Q4 actually the revenues have dropped sharply, while EBITDA margins have moved up, so I just wanted to understand if there is anything you can share on that?

Sunil Bohra: No, we are not having that kind of access to, we appreciate it is a listed entity so I am sure they have also to comply with all the regulatory requirements.

Sidharth Bera: Thanks a lot. I will come back in the queue later.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Sir, first question is can you help us understand the year-on-year growth on the topline around 8% to 9%, so for the Q4 revenue growth will it be possible to break it up into value versus volume growth that you look it in that way for difference businesses?

Sunil Bohra: Very difficult to put a number to it, very difficult. How would you put a volume growth number there, it is not possible with these 30 products, not possible.

- Ronak Sarda:** Right. Second question is on the R&D center. What was the overall capex cost for the facility and what is kind of opex cost you guys are looking to spend at that level?
- Sunil Bohra:** We have spent close to 40 Crores to 50 Crores on the infrastructure in the R&D center and what is the second question?
- Ronak Sarda:** What is the operational cost for each year you are targeting there R&D cost on an overall basis?
- Sunil Bohra:** So, our overall R&D cost if we see all the business put together it is almost 3% to 4% of the topline and specifically on CREAT our annual spend is roughly around 40 Crores odd.
- Ronak Sarda:** That would be recurring in nature?
- Sunil Bohra:** Yes, that is the recurring in nature because we have 160 people now on roles specifically on the R&D center plus the other costs.
- Ronak Sarda:** One more question on the presentation, have we changed the way we highlighted the segmental revenues? I mean are we not taking consolidated of JVs and associates as well because the numbers do not add up in for acoustics also I think from last year the numbers have changed and also on the others products as well is there any change?
- Sunil Bohra:** It is the same, but in case if you still have some clarifications to make, we have added one extra business, which is called Light Metal Technology, which will now have alloy wheel business and the dye casting and the other we can that is now excluding the other businesses, so now controllers and those will come into others, so we can discuss.
- Ronak Sarda:** I will take it offline. Thank you.
- Moderator:** Thank you. The next question is from the line of Sumit Hizly from AlfAccurate Advisors. Please go ahead.
- Sumit Hizly:** Thank you for the opportunity. Sir, just wanted to know what is your contribution of from Maruti in your four-wheeler alloy business?
- Tripurari Kumar:** The revenue mix is 79% versus 22%, so 78% of the alloy wheel business that you do out of Minda KOSEI is sold to Maruti Suzuki.

Sumit Hizly: The recent slow down in Maruti and they have given lower guidance in FY2020 also, so what are your thoughts on your overall out look in the four-wheeler business?

Sunil Bohra: Sumit as we said earlier also we normally do not second guess our customers, we go what they plan for and we always have our little bit of additional flexibility of ramping up in the better volumes, so whatever numbers you are hearing we are planning on that plus in case there is some uptick in volumes we are ready for that.

Sumit Hizly: Sir, we have recently added one more segment is LMT so what exactly can you just clarify bit?

Sunil Bohra: So, earlier the aluminum dye casting business and alloy wheel business was all clubbed as others because it was small now we believe it has grown to a size where it merits a separate disclosure and that is why it has been carved out, out of others in a separate vertical.

Sumit Hizly: Thank you so much.

Moderator: Thank you. The next question is from the line of Bhaskar Bukrediawala from ASK Investment Managers. Please go ahead.

Bhaskar Bukrediawala: Thanks for taking my question. Just wanted to understand in terms of next couple of years given the growth headwinds in the industry, how are you looking at a overall scenario in terms of and what is the kind of growth that you are looking at and if we have to split that between let us say the industry growth on top of it the content per vehicle or the increased client penetration on new products scale up that you are looking at, let say if industry grows at 5% to 6% what sort of growth do we expect from your company?

Sunil Bohra: Bhaskar, we have said well back if the industry grows 5% to 6%, we will definitely grow in the range of double-digit and to your question of the industry growth also we are pretty confident that this is just a small bump where too many negatives unfortunately have all coincided at the same time because as a country we know that we are having very, very low penetration of specifically PVs in the company compared to other developing economies, not developed economies if we leave apart, so as far as economy goes, it think it is just we believe a small bump and it will come back, there have been too many sectors, which we all know have all clubbed together and this market is definitely going to surprise, a lot of people of when it bounces back.

Bhaskar Bukrediawala: Sure. Sure. Sir, one question. I mean you said that you will grow faster than the industry. I mean, if industry grows 5% you will probably grow at 10%, 11%. So as I understand, largely, the incremental

growth beyond industry that is likely to come from, as you mentioned, the sensors, the product which you I mean?

Sunil Bohra: There are a lot of things, Bhaskar. The first thing which we have been saying continuously which is during the works is premiumization where the number of vehicle remains same but our value increased. For example, number of switches, which are increasing in the car, the lights in terms of moving from halogen to LED. So there are a lot of premiumization, lot of value migration. If you see last year, as a country, we moved from Alto to Swift. So while the number of car remains same, Swift outpaced Alto sales which means for us higher kit value of sale per car than despite a constant volume, then another factor which works is our addition of newer product. It is not only sensor there is sensor, there is controller, there is alloy wheel, there are new plants which we have put in, so if you see our kit, our kit value has been consistently being growing year-on-year and there is a separate slide in the presentation as well you will see how the transition or migration has been happening in terms of kit value, so the number of vehicle even if remains same, my kit value is going up and in fact in a Fortuner my actual kit value as a group is almost Rs.80000-Rs.90000 per car which is actual sales, so all combined gives us confidence that we will be outpacing the industry growth and in terms of which are also as you are all aware we already announced the acquisition of Harita, so Harita seating will add more than Rs.1000 Crores of revenue next year.

Bhaskar Bukrediwala: And that would come largely from the passenger vehicle segment, the incremental growth in Harita?

Sunil Bohra: Harita is mostly into off road CVs and two-wheeler. It is not PVs.

Bhaskar Bukrediwala: No I understand that but if I correctly remember at the time of acquisition one of the thought process that you had mentioned of acquiring it was to basically grow the PV side of that business.

Sunil Bohra: Yes, that is what we said that we said very categorically as number is that once the company is into our fold they have a technology partner, who also is into PV in Europe, so we would like to have a discussion with them and see that how do we get PV into India, as of now there is no commitment from them. That growth is not factored.

Bhaskar Bukrediwala: So that could possibly come in beyond FY2020 and maybe 2021?

Sunil Bohra: It will take easily three years, because every if you are able to get this completed next year and have some sort of understanding to get the product into country will take another two years.

Bhaskar Bukrediwal: Just one last small thing, in terms of like you mentioned new products and one of them is sensors and controllers and two wheel alloys, would you be able to give some sort of understanding of what would be the margins in these new products, I mean we have seen that the alloy wheel business is far higher margin than your other businesses, so is there a similar sort of margin profile in new businesses?

Sunil Bohra: There are two things which I would like to answer in two parts, obviously when we do new products our endeavor is always to get a higher better margin product, but second point is I think we should appreciate why we are able to get better margins on four wheeler alloys wheels is because there is antidumping duty in our country and that is what helping us getting better margin which is not rare on two wheelers as of now.

Tripurari Kumar: Plus the businesses that you have seen in LMT they are capital intensive, so you should look at the business from a total return perspective.

Sunil Bohra: If you see the assets turn on my alloy wheel, is lower than the assets turn on the other businesses, so you have to have higher margin so as to get the same ROCE

Bhaskar Bukrediwal: So new businesses it is fair to assume, but they are in terms of return on capital employed as good as what you are today as a whole?

Sunil Bohra: Or better.

Bhaskar Bukrediwal: That is it from my side.

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

Dhanish Jain: Sir I just want to know the company net debt in FY2019 level?

Tripurari Kumar: FY2019 our net debt levels are close to Rs.950 Crores and debt numbers would be slightly higher than this for the March ending FY2020.

Dhanish Jain: Sir my second question is that in last year we see that the company's debt equity increased from 0.1 level to 0.5 level in FY2019 level so is the company is going to limit at this level in FY2020 or it may increase again on the basis that the company the capex drawn in an growth?

Tripurari Kumar: As you will appreciate, over the last 3-4 years, we have undertaken a consolidation exercise as well as we have done a fresh round of capex in Gujarat owing to which there is a movement and we have

assumed some debt because of these expansion and we believe that 0.5 is also a good level of debt to be assumed and this will only improve the return on equity and we are really sure we will be retire these when this project mature and sure some amount of leverage we will appreciate will improve ROCE.

Dhanish Jain: The second question will be on BSVI as well on as electric vehicle in terms of the demand coming in 6 months or 1 year or 2 year time. And how the company is seeing additional revenue from these new categories next two years time?

Tripurari Kumar: You asked how the business in the other categories are likely to pan out?

Dhanish Jain: Yes correct.

Tripurari Kumar: These are like I mentioned in the call there are businesses like controllers and sensors for which we have had business with Sensata and also KPIT where we are going to play out the AS 140 controllers.

Dhanish Jain: Sir that is what I am trying to ask, in total how much revenue the company is expecting from the whole business in the next two years?

Tripurari Kumar: Like Sir said the business potential is likely to be for sensors and controllers put together north of 700 over a period of period of next 3-4 years, but in the current financial year, we are planning for a number of around 100 Crores from these sensors and controllers.

Dhanish Jain: Sir my last question is Sir in FY2019, how much contribution is alloy wheel in total revenue Sir.

Sunil Bohra: We have mentioned in the slide it is around 23.

Dhanish Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead

Ankit Kanodia: Thank you for taking my question. Most of my questions have been answered. I just had one question left basically in the opening commentary management has guided that second half of the year should be better than the first half and when I look at the commentary of some of OEMs be it two wheelers or four wheelers everyone is guiding about a difficult 12 months so what makes us believe that industry will revive in the second half. I just wanted to have some color on that?

- Sunil Bohra:** I think you are right that some of the OEMs have said they expect for full year but some of them have also said they do exact some pre buying because of migration from BSIV to BSVI because of the price increase, people do expect there will be buying in Q2 prior to price increase which definitely will come because Indian market considering is a very price sensitive market. Whatever purchase which have been deferred as the people of current election scenario or prior to that, post monsoon scenario, actually expecting at least in two wheeler segment volume growth in fact last part of Q2 to Q3 and from our perspective also on top of it, there are some projects which we are adding new, like as I said little while back our controller division will start production Q2 obviously you will see higher sales in higher revenue in Q3 same way for our TTE business which is our RPAS and also our Onkyo business and also airbag businesses, which are currently under maybe stabilization phase, they will also be delivering much better returns in second half compared to the first half, so that is from our perspective which will give better numbers in.H2 compared to H1
- Ankit Kanodia** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you Sir for the opportunity. Just a bookkeeping question I want to ask. This year we have seen the tax rate going up very high. I mean it is approaching the normalized level so if you see the tax rate in this year is 30% whereas historically we have been like 20%-25% kind of range, so just you guide us on that for next year what would be the tax rate we should assume. Would it be at this level of 30% or would be higher than that?
- Sunil Bohra:** I think our tax rate has broadly been same, I think delta only half percent, last year it was 29 point something this year again 29. Something half of percentage and moving to next year we are expecting the raise to be around 30%-31% primarily because of one tax benefit which we gets from R&D which expired in March 2019, we hope that it get extended in the budget which will be resulted by the new government if that be so, then we should be able to maintain the current tax rate.
- Bharat Gianani:** Thank a lot all the best.
- Moderator:** Thank you. Next question is from the line of Chirag Shah from Edelweiss Capital. Please go ahead.
- Chirag Shah:** I have two basic questions. One on slide 20 where you have indicated your BSVI, PV, and EV portfolio and its impact how do we read the slide is when you say altered switch system that 41 is this the revenue potential you are indicating?

- Sunil Bohra:** It is FY2019 revenue.
- Chirag Shah:** It is FY2019 revenue. Is it possible to indicate that when your transition to BSVI, which part of the product portfolio will be a significant jump in terms of value content?
- Sunil Bohra:** We have already given our red, yellow and green boxes so wherever there is a yellow which means the product is likely to continue the same way it is with minor modification. When you look at red, the product is likely to get absolute wherever it is green, we expect the content jump in that product line.
- Chirag Shah:** So at an aggregate level if I can. What percentage of your revenue will be calculated?
- Sunil Bohra:** Yes.
- Chirag Shah:** Yes that can be calculated but what is the extent of positive value content increase that we can see on that portfolio. Is it 3-5% reach can we see impact or it could be?
- Sunil Bohra:** It is difficult number to say now because we add products which will be centric to EV obviously the jump will be higher, but what I can convey now is we have put the revenue numbers to ensure and convey a message to you that the impact is going to be less than 5% of my current turnover.
- Chirag Shah:** I have seen more from BSVI perspective, the benefit that you see from BS VI?
- Sunil Bohra:** We are already supplying BSVI quality filters and the benefit you will see on account of sensors and sensors like Sir has already mentioned
- Tripurari Kumar:** But we will starting only in later part in commissioning in December and mass production in Q4, so this year you will not see a material bump up, but definitely from next year, this year maybe around few Crores, next year it will be significant.
- Sunil Bohra:** So it is still like we mentioned could be a significant volume driver as well as value driver?
- Chirag Shah:** Because in this presentation, because you have indicated safety parts to be positively impacted by BSVI like cameras, steering wheel airbags with similar have indicated reverse parking system to be positively impacted by BSVI.
- Sunil Bohra:** So these are becoming mandatory with immediate effect from July 2019, so these are likely to be positively impacted.

- Chirag Shah:** So this may not be affected because of BSVI as such. Is that other activity changes which is helping?
- Sunil Bohra:** Yes which are mandatory in BSVI.
- Chirag Shah:** Yes. Which are mandatory in BSVI, okay, fair point and content increase is it possible to indicate on this product in general as an overall market?
- Tripurari Kumar:** We have given segment wise, no, so that is where we will continue to guide, yes.
- Moderator:** We move to the next question, which is from the line of Sunil Shah, which is from Turtle Star Portfolio Managers. Please go ahead.
- Sunil Shah:** Yes, Sir, I have one question, which is on the association with Harita that we are going to do. Sir, for all the shareholders of Harita Seating, each shareholder will have an independent choice of selecting the option between 152 shares for every 100 shares versus the cumulative redeemable preference share or it will go for the company as a whole, so each shareholder will get a choice or it will be company which will decide as one option for the shareholder?
- Sunil Bohra:** Shareholder as a promoter, as a non-promoter because as a shareholder, a shareholder can vote, promoter cannot vote. That is why the non-promoter shareholders have a separate independent choice and also promoter has a separate choice. Both can opt for same, both can opt for different.
- Sunil Shah:** Okay. So meaning, the arbitraries are 15% in prices, so that is still valid for Harita shareholders. So they can still take the share of Minda eventually, right?
- Sunil Bohra:** I would not comment on that.
- Sunil Shah:** Yes, okay fine. Thank you very much for answering this.
- Moderator:** Thank you. The next question is from the line of Jaimin Desai from ICICI Securities. Please go ahead.
- Jaimin Desai:** Thanks for the opportunity. My question was in respect of the emerging products specifically airbags and RAPS. What do you reckon is the eventual opportunity size for the company and have you gained market share in these two products during the year?

- Sunil Bohra:** Both airbags and RPAS as you know, are getting mandatory only from July this year. While we have got good traction from one of the leading OEM, so difficult for us to comment on market share, maybe we will be better placed to answer in the second quarter results.
- Tripurari Kumar:** However, like in the opening commentary, we mentioned, even Alto K10, which is now being manufactured, is getting factory fitted. All CNG-LPG-driven Swift is now being factory fitted and new Wagon R is now factory fitted with the front airbag. So these changes are already happening and obviously this will impact our company.
- Sunil Bohra:** Yes, but to calculate the market share because why we are saying it will take time because as of now, not all the OEMs have made it mandatory in every model. So until they do, it will be difficult to calculate what is the current share, so we will be able to give maybe in couple of quarters.
- Jaimin Desai:** Because I believe the annual report for last year mentioned 25% market share in airbags.
- Tripurari Kumar:** 23%, yes, I think your number is right.
- Jaimin Desai:** Yes.
- Sunil Bohra:** We are expecting that market share to improve in this year.
- Jaimin Desai:** All right and Sir, if you could just guide what would be Kit Value for these two products per unit?
- Tripurari Kumar:** So airbags, the two front airbags will be Rs.3500 and the RPAS like we mentioned for the entry-level will be around RS.750 per set.
- Jaimin Desai:** All right. Thank you, so that is from my end.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhatia from BOI AXA Investments Managers. Please go ahead.
- Dhruv Bhatia:** Good evening Sir. My question is on the alloy wheel business. If you could just help us with, since you have two customers currently, it is Maruti and M&M, are you approved with any other vendors since your adding capacity from 2020 and on the same point, since you are also adding capacity on the two-wheeler alloys, has there been any application for antidumping duty similar to what is there in the four-wheeler?

- Sunil Bohra:** So two questions. In terms of four-wheeler while from Minda (inaudible) 1.00.09 our another company, which is KOSEI Minda, it is already selling to Nissan, Honda.
- Tripurari Kumar:** Renault. Toyota,.
- Sunil Bohra:** There are six customers currently we are selling our total alloy wheel portfolio. In terms of the ADD, as I am sure you know that to apply for ADD, you have to be a producer first. So we cannot apply today unless we start our production.
- Dhruv Bhatia:** Sure, sure, so but do you see the case of there being an application for ADD on two-wheelers?
- Sunil Bohra:** As said, we would like to, but obviously, at the end of the day, I am sure we would have seen that ACMA has already represented to the government. ACMA as a body, they already represented to the government for imposition of the same on two-wheeler as well.
- Dhruv Bhatia:** Sure and Sir, I mean I do not know if it is too early, but since from 2020, one of your competitors also adding a decent amount of capacity in alloy wheels. So do you see a slow ramp up in your alloy wheel business post the expansion or will it be a similar type of movement in terms of capacity utilization as we have seen in the last couple of years?
- Sunil Bohra:** Dhruv, if we see the two-wheeler alloy wheel, I am sure you are referring two-wheeler right?
- Dhruv Bhatia:** No. I am referring to four-wheelers.
- Tripurari Kumar:** So are you referring to SSWL?
- Dhruv Bhatia:** Enkei Wheels is adding another facility
- Tripurari Kumar:** So we are exclusive suppliers, we and Enkei. So we control most of 65% of the volume that is supplied to MSIL and 35% share is related to Enkei. So that is broadly the mix and we believe it will continue to be this way for sometime.
- Dhruv Bhatia:** Sure. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prayesh Jain from YES Securities. Please go ahead.
- Prayesh Jain:** Good evening Sir firstly on the two-wheeler alloy, this would be under which company?

- Sunil Bohra:** Minda Industries.
- Prayesh Jain:** Okay. So it will be in a standalone?
- Sunil Bohra:** Yes.
- Prayesh Jain:** Okay and Sir, on the lighting part of the business, how do you see the LED penetration happening and the content per vehicle in there, is that likely to grow at a much faster pace going ahead?
- Sunil Bohra:** So LED penetration as we know, Prayesh, is very good in two-wheeler because the price is not significant. It is like Rs.250 to Rs.750. But the penetration in four-wheeler is not that much because, again, the price point is 2.5x. So that which cost roughly Rs.4000 or Rs.3000 we will cost Rs.8000 to Rs.10000. So LED lamps in four-wheeler are not that faster. And considering that the price impact which is going to come because of BSVI and all. As said this penetration will be at a faster pace in four-wheeler as it has been in two-wheeler.
- Prayesh Jain:** Okay. So you do not expect the penetration to be at a slower pace. Are you expecting it to continue to be at a faster pace?
- Sunil Bohra:** It is increasing penetration. We do not expect it to be same as two-wheeler.
- Prayesh Jain:** Okay and the profitability in this segment, do you think that you will be able to improve it further? You have already seen an improvement there?
- Sunil Bohra:** So Prayesh, I think we have come a long way in terms of lighting division profitability. It was related to almost close to double digit now. And the lightning business is the most competitive auto component business in the country where even global companies are there like Magneti Marelli or Indogem. So there are a lot of companies which are there and it will have single-digit market share. So we are fortunate. We are happy that we have at least 22%, 23% market share in lighting, only after Lumax which is almost like 40%, 45%.
- Tripurari Kumar:** And adding to what Sir said, we are by our own overall technology, so we do not have any external technology tie up. Despite that, we are among the leaders in this market segment.
- Prayesh Jain:** Just on that, again the LED has a lot of electronics which most of the players are importing. Any plans in there where you're looking to backward integrate into manufacturing of in house electronics?

- Sunil Bohra:** Yes. So one of the LED component, which is the SMT, we are manufacturing internally. We have setup like JV last year called Minda-Katolec, so this is a backward integration for sort of LED.
- Tripurari Kumar:** So most the electronics that we do in India except the semiconductor, the manufacturer - the assembly is done in India, and we have dedicated facility under Katolec. Some of our companies also have their own SMT line.
- Sunil Bohra:** Yes. But LED as a bulb or whatever is obviously that's imported.
- Prayesh Jain:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.
- Sunil Shah:** Sir about the presentation that you have shared on slide #24, where you have nicely depicted our Kit Value or probable Kit Value in terms of the range of the vehicle. So there, at the low end of the vehicle of about Rs.2.2 lakh of vehicle, we have a probable content of close to Rs.26000 and at the high end which is like Rs.16 lakh plus of vehicle, we have about Rs.80000. So right now, the industry is going through a lean phase, obviously the OEs would try to please the customer by bringing that high-value product to the low end as well. So if I am looking at three years down the line or once this auto table certainly will be much better three years down the line, how do you see this content changing from Rs.26000 say from A to B. Right now, the differential is Rs.26000 and Rs.44000 odd, but as the OEs would try to please the customer, so what is your sense that at the lower end how much would our probable content increase say in the next three years time frame, in terms of numbers? Yes, because the lean phase would ask them - prompt them action much faster
- Tripurari Kumar:** If you look at our Kit Value, we are into switches, lamps, obviously the story behind this product is that we will be able to grow our Kit Value, which will be back-to-back both premiumization as well as the value migration from lower cc vehicle to higher cc vehicle. So we do not expect any de- premiumization as you are suggesting because there is still a long way to go in terms of what kind of cars we see in developed markets and what we see currently in India.
- Sunil Shah:** So this would be more or less in line with the industry. We are there and this numbers would remain, right?
- Tripurari Kumar:** Yes.

- Sunil Shah:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Rajeev Ray from Bajaj Finance. Please go ahead.
- Rajeev Ray:** Sir, this is regarding the lighting segment. Can you give us some guidance on the Rinder India? How is their top line EBITDA level and the capex for this year?
- Tripurari Kumar:** We have given the lighting business update, so around Rs.600 Crores number is what they have done.
- Sunil Bohra:** And EBITDA is around 9%, 10%.
- Rajeev Ray:** Okay and what will be the annual repayment obligation at consolidate level and standalone level of Minda Industries?
- Tripurari Kumar:** Nothing material. I think we have a long moratorium period, but we will publish the number. It will be around Rs.45 Crores, Rs.50 Crores.
- Rajeev Ray:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.
- Siddhartha Bera:** Sir, just a small follow-up. You indicated that our net debt levels will likely again go up from FY2019 levels marginally in FY2020. Just wanted to check on that because I believe our cash flows are close to in the range of Rs.600-odd Crores. So what is the basic reason why our debt levels are going up?
- Tripurari Kumar:** No. I think there is minor incremental gain.
- Sunil Bohra:** I think why Trip said, he assumed Harita shareholders might opt for some preference shares. If preference were opted then obviously, it is assumed as a debt. If they do not opt for preference and they will opt for equity, then you may not see any material increase in the net debt.
- Siddhartha Bera:** But it should directly come down next year because if the business is Rs.400 Crores you should generate FCF in next year, right?
- Sunil Bohra:** Right.
- Tripurari Kumar:** Yes. So net debt numbers may not be impacted much.

Siddhartha Bera: Okay Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would like to hand the conference over to Mr. Sunil Bohra for closing comments.

Sunil Bohra: Thank you. I would like to thank everyone for joining the call. I hope we have been able to respond to your queries adequately. For any further information, please feel free and get in touch with us. Thank you.

Moderator: Thank you. On behalf of Minda Industries, that concludes this conference. Thank you for joining us. You may now disconnect your lines.