

Q2 2021 Earnings Call

Company Participants

- Ashok Minda, Chairman & Group Chief Executive Officer
- Laxman Ramnarayan, Group Chief Financial Officer & Executive Director
- Neeraj Mahajan, President and Group Chief Marketing Officer
- Bikash Dugar, Head - Investor Relations

Operator

Ladies and gentlemen, good day and welcome to Minda Corporation Limited Q2 FY21 Earnings Conference Call, hosted by Indsec Securities and Finance Limited. As a reminder, all participant lines will be in a listen-only mode and there'll be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr.Saral Seth from Indsec Securities and Finance. Thank you and over to you sir.

Saral Seth

Good evening, everyone on behalf of Indsec Securities and Finance Limited, I welcome you all for the Minda Corporation Q2 FY21 results earning's call. I would take this opportunity to welcome the management team from Minda Corporation and thank them for giving us this opportunity. Today we have with us. Mr. Ashok Minda, Chairman and Group CEO; Mr.R. Laxman, Group CFO; Mr.Neeraj Mahajan, Group Chief Marketing Officer; and Mr.Bikash Dugar, Lead Investor Relations.

I now hand over the call to the management, for brief opening remarks followed by the Q&A session. Over to you sir. Thank you.

Ashok Minda

Thank you. Saral. This is Ashok Minda, good evening, ladies and gentlemen, I welcome you all to the second quarter of financial year 21 earnings conference call of Minda Corporation. I would like to thank you all for joining us on this call and hope all of you are doing well. The Auto industry in second quarter of financial year 21 saw sequential growth in demand as the economy recovers from adverse impact of COVID-19.

Two wheelers, Tractors and Passenger vehicles saw revival in production and sales volume, indicating preference for personal transport and growth in agriculture sector. In light of these circumstances, I am pleased to report that Minda Corporation delivered

consolidate revenue from continued operation of INR656 crore, a growth of 17.5% on year-on-year basis. It should be noted that over the same time the industry decline by 6.2% on year-on-year basis.

Our growth was driven by three major factors, increasing in wiring harness content in two wheeler category, increasing in aftermarket sales and increase in exports. Our focus on cost optimization and higher operational efficiencies has helped us in moving to double-digit EBITDA margin and the net cash position has improved, which will be explained further by our Group CFO, Mr.R. Laxman.

Focus on enhancing customer relationship has helped us winning repeat businesses and also new business from our existing and new customers. Which will be further explained by our Group Marketing Officer, Mr.Neeraj Mahajan. We recognize and appreciate the efforts and the support extended by our employees during the challenging period in the health pandemic. We already have rolled back all salary cuts from September which were earlier plan from October.

With a focus on shareholder value creation profitable growth and customer satisfaction Minda Corporation Board of Director has approved the appointment of Mr.Aakash Minda as an Additional Director in the category of Executive Director on the board of the company with effect from 5 November 2020.

The Board has also approved preferential issuance of equity share up to INR83 crore at the rate of INR70 to a fund managed by Phi Capital Management LLP subject to approval of the shareholder. Phi Capital as Auto Industry expert on their Advisory Board, it has partners such as Mr.M Lakshminarayan, Chairman of Wabco and Ex. CEO of Bosch India, Mr.Harish who come from TVS family and he is MD of TVS and Sons, Mr.Sivaram Ex. CFO and CEO of Punjab Tractor, Mr.Ravi Sud Ex. CFO of Hero MotoCorp.

We expect this experience and expertise of the Pgi Capital team to advise Minda Corporation and further its efforts of creating value for all of its shareholders. Phi capital will support us in identifying value creation opportunities for foremost management, financial planning and long-term strategy. Minda Corporation and Phi will work jointly to build sustainable business and create long-term shareholder value through operational partnerships.

Their investment in the company shows their commitment to help and support us. The fact that we have been able to get this investment definitely enhances our company ability to look at larger investment, which will be important to fund for developing and acquiring future technologies, competencies and investments. Now, we shall begin detailed discussion on financial and operational performance.

With this, I hand over the call to Mr.Laxman our Group's CFO. Over to you Laxman.

Laxman Ramnarayan

Thank you Mr.Minda and good evening ladies and gentlemen. I will now cover the Q2 FY21 financial performance of Minda Corporation and I'll be referring to the slide that we have prepared for the presentation, and if such of those of you who may have these slides I will also refer to the page number. I'll keep this presentation very short, and then the last

part of the presentation will be handled by Mr. Neeraj Mahajan our Group CMO and thereafter we will open it for questions and answers.

I'm directly jumping to Slide number 3, well on the left-hand side of the slide we have our summary, which is FY 2020 revenue, which is 2,800 crores, business verticals i.e. mechatronics information and connected systems plastic interiors and after market. Key customers continues to remain our greatest strength, most of Indian OEMs are our key customers. We have 30 manufacturing facilities and of course our very deep R&D capabilities, thanks to the SMIT R&D center in Pune and multiple specialized R&D centers across India.

Market capitalization as on 30th September was about 1,700 crores. On the right hand side file you'll see the H1 FY21 breakup of revenue as compared to H1 FY20, by geography roughly the same was 85% of our revenue now comes from India, 9.6% comes from Europe and North America and 4.9% comes from South East Asia. If we look at end market, here's it is a change you will see that about -- now about 55% of our revenue is coming from two and three wheelers, 19.5% of our revenues coming from commercial vehicles, which is a dip from earlier 25%, and the aftermarket revenue share has substantially increased earlier it is about 12.9% that is increased to 17.5% in H1 FY21. Passenger cars remain at about 7.7%.

If one goes by business verticals, which is the last circle in the bottom on Slide number 3, you'll notice that mechatronics and aftermarket together contributes 57.8%, mechatronics contributes about 40% and aftermarket is about 17.5, information and connected system contributes the balance roughly 42%. In all categorization as of now interior plastic is also part of the information connected and has small percentage.

Moving to Page number 4, you will notice that in H1 all the figures and negative the Indian auto industry fell by about 42% overall with two wheelers going down by a same number, passenger vehicles going down much further and commercial vehicles going down by 56.9% so only tractor business fell less, which went down only in single digits.

However, the Q2 numbers which is in the second bottom of the slide is giving a more reassuring picture in terms of green shoots. You'll see that the auto industry has gone down about 6.2% compared to the same quarter last year, two wheelers have gone down 4.8%, passenger vehicle 3.1%, commercial vehicle continues to go down further than others which is 16.4%, of course tractors have gone up by 22.5%.

So in Q2, basically we saw month and month improvement, which has been positive given the preference for personal transport, restocking because of BS VI, and also that agriculture sector doing very well. However, we continue to face challenges in terms of the subdued economic environment, lower consumer sentiment and also the lockdown has not been fully lifted in all states so to that extent there is been some impact.

Moving to the financials, which is on Page number 5, in terms of the consolidated performance. This is a summary of course more detailed is available on our website. If you see the first column, which is the Q2 FY21, which is the first quarter we are having in a what shall we say a kind of a post COVID era. We have posted a revenue of 656 crores, about 7 crores came from other income large FD income, interest on FD income and our EBITDA was about 66 crores, so 66.5 crores EBITDA translated to about 10.1%.

We had a Profit from continued operation of 36.6 crores, and the profit after tax of 25.8 crores. So if we compare this to what was reported last year Q2 FY20, which included a lot of other businesses, those sales has been down because of the loss of business at our European operations. The EBITDA margin has definitely and decisively moved to a double-digit EBITDA margin number, and I will come to it and explain further as to why we feel that this double-digit EBITDA margin is sustainable for us going forward on a post COVID era.

The half-yearly numbers which is the second last column of FY '21 at 834 crores, and then EBITDA of 46 crores includes almost a wash out period for Q1 and good performance for Q2. So the average of that has brought us down to 5.5% of EBITDA. Overall it is 9.6 crore loss of the end of the H1. So effectively what we are saying is, we have largely compensated for the losses of Q1, in by way of the profits for Q2 and therefore going forward in the post COVID era only looks positive for us, that is on Slide 5.

Now moving to Slide number 6, we are analyzing the quarter in terms of revenue EBITDA impact more have detailed description of what we covered in Slide 5. If you look at the revenue of 656, you will see that overall revenue is lower because obviously there is a discontinued operation of Minda KTSN. Apart from that we continue to show a growth of about 17.5% if you exclude that as Chairman also pointed out, our transition from BS4 to BS6 has also led to increasing wiring harness content and aftermarket and exports have done well -- in fact our aftermarket sales during Q2 has jumped by about 32% and our overall exports from India overall has jumped by another 18%.

So these two have really contributed to our increase in sales. And as we think these each of these small engines are helping us in kind of giving a more consistent performance irrespective of one segment doing better or other. In terms of EBITDA margin about 10.1% in Q2 FY21, of course there has been a favorable impact because of discontinued operations and the continued operations of EBITDA did get impacted by an adverse product mix and labor productivity because of COVID as well as new labor coming in and the transition from BS4 to BS6.

It was also challenged by raw material indexation by copper prices shot up, but that's more of a lag effect and that will get compensated in the next quarter to come. So in summary, the EBITDA margin has negative which are not going to continue in the future, in the sense that the labor productivity will only go up. We expect the product mix to only get better because commercial vehicles have been down and now we have seen some amount of stabilization in the next few quarters.

And the transition to BS 6 is complete and the lag effect of raw material indexation will only get impacted positively going forward. The net profit at INR25 crores has taken an impact of the JV losses also, which is about JV share loss about 16 million as against a profit of INR2.9 crores or 29 million in the quarter previous year. There has been an tax effect also in that in the Q2 of last year. We are taken a much smaller tax provision because the effective tax rate changed and we did take high provision in Q1 last year. So therefore Q2 of FY '20 was less and therefore if you're comparing it to the same period it looks as if in the current Q2 we've provided for more tax but of course our belief is in the whole year all of this will get nullified.

Coming to Slide No. 7, you will see that on the quarterly performance on the left hand side graph the mechatronic has been supported by a high aftermarket growth and high

exports growth. Our aftermarket which grew substantially well, has helped mechatronic division do very well because half of the sales of aftermarket comes from mechatronics and they posted a 12.7% EBITDA margin in Q2. Which is again credible given the fact that they're just come out of COVID as compared with the same quarter in the previous year yes there has been a dip from 13.8 to 12.7 and that is definitely because an adverse impact of the high cost of operations due to COVID, we expect this to go away in the next few quarters. Favorable impact as we had mentioned was higher aftermarket as well as exports. The division and the company as a whole has gone through various cost cutting measures that is also got reflected in the EBITDA.

The information and connected system continues to be a challenge for us, why am I saying challenges? Because you will see that though sales have gone up because of BS 6 our EBITDA margin has fallen. We had mentioned that our ability to reach the EBITDA margin of BS IV will take about two three more quarters. So you see a dip from 9.6 to 6.7%.

Some of it is only one time because the raw material indexation because of the lag has definitely costed us a good amount of this delta between 9.6 and 6.7 and we see that coming back in Q3. Apart from that again this division also continues to take various cost-cutting measures across their factories.

Going to Slide number 8, our net worth stands at INR950 crores, our gross debt stands at INR426 crores. However, the cash equivalent is more than the gross debt and therefore our net debt figure is negative in the sense we are on a net basis we have cash and therefore our net debt to net worth ratio doesn't hold anymore.

Ratings absolutely consistent, we continue to be rated by India Ratings and Research as well as CRISIL, India Rating gives us a AA- and CRISIL gives us A+ and for long-term.

So that's the quick summary of the financials, then I'm going to request my colleague. Mr. Neeraj Mahajan to take us through the business orders that we have won, the awards and the CSR section and of course your views on the market and then after that we are happy to take questions.

Over to you Mr. Mahajan.

Neeraj Mahajan

So, thank you very much Laxman. Good evening ladies and gentlemen. My name is Neeraj Mahajan, I'm the President and Group Chief Marketing Officer. So I will say in all compared to Q1, Q2 has been very-very productive in terms of order booking. To take you through the slides some of the colleagues in this call those who have that information in hand can refer to that, I'm pleased to share that lifetime order book for replacement for the company has been closed about 25,258 million and new order book has been for 5,149 million in Q2 FY21, it's a good situation to gain in terms of the overall order book right now. Let me go more into details about it.

Our business vertical 1, which is mechatronic in Q2, we have made a lifetime order book works 5,365 million, and year-to-date lifetime order versus in excess of INR 9,340 million. So naturally in the first half as we all experience the challenge of first two months of the

businesses, struggling to complete the activity so but the second half as the kind of all the pending orders were cleared by the OEM's if they were reworked negotiating with thanks to our relationship, which is growing only. As we confirmed about the replacement some of the key order which have been received from replacement and new books are mechatronic division in the replacement market has got a very large two wheeler security system locks related business, which is touching about 2,850 million lifetime order.

However, our new addition order book has been also very healthy. We have two wheeler order again for the security system lock set, of about 1,400 million. Die-cast division also won new order from Tier-1 and OEM order book. Very healthy from various domestic and international customer, overall order book value of 478 million. We got order book from tractor industry for Starter and alternator division of 114 million lifetime orders.

If I look at it from information and collected system related development in terms of new & replacement order book those we have book 25,000 million worth of orders in quarter two. In Q1 order booking was low, hence as of date YTD in 2021 we have booked about 28,270 million. So we give more insight of the businesses in information and connected system. The replacement orders in the commercial vehicle space we got close to about 6,222 million, we got two wheeler replacement order for our existing customer for a very large value of 15,531 million which was a very prestigious order called up in combination of two customers, but we have also been making excellent progress now in our tractor and commercial segment.

There we have got new order for Minda Stonebridge on instrument cluster for 749 billion, and also for commercial vehicle 220 million from the commercial vehicle segment respectively. Plastic area has started to show progress in terms of its India operation. Now after KTSN. We have booked through Q2 lifetime orders worth 42 million in Q2, and 176 million since year-to-date. This is from a very large engine manufacturer Tier-1 customers and we are expanding our portfolio in light weighting and plastic engine components.

For export it has been a good in terms of getting both new and replacement. So in case of replacement, and for the new order of together we have INR1,760 million lifetime order book for exports, and say in all the order book situation for YTD looks very promising for us to have better order books or better situation for years coming ahead.

I'll move to the next slide to just share a very broad outline how Minda Corporation has also been recognized and doing other activities related to CSR and others with the foundation we have. We are also proud supplier of various products from our all the 3 verticals to the newly launched vehicle THAR by Mahindra & Mahindra. In this case including wire harness, one of the most advanced cluster, which is TFT instrument cluster which is supplied from our side, we also had EGT sensor, air vents, outside door handles etc. into this product, and we are very excited the way the order booking is coming in for this and we wish success to THAR in the coming days.

Mindastoneridge was also recognized for Q1 quality award coming in from Ford Motor Corporation, and also won various QCFI Kaizen award.

In terms of our CSR initiative, our foundation in association with Wadhvani Foundation provided food and essential commodities distribution through Sambhavna Projects to Indian Army in Jammu region, that was a very-very appreciated effort from India Army side as well.

We also produced mask to service the different segments of society over 16,000 mask were produced by our Pantnagar facility of Akarshan which is our Assistance Center for local employment and training providing facility. We also had virtual classes completed for convocation.

As far as the market outlook in general is concerned, let me share with you most of the OEM have produced a very-very robust volume, especially for four-wheeler and two-wheeler alike for readiness on festivity and Navratra season has gone very well how the retail sale side.

We are keeping a very close watch at this point of time for the November month's requirements. The schedules are extremely healthy which shows the confidence from the customer about the retail opportunity which they are going to have during this festival season. However, as an organization we are keeping very close watch on both market as well as our cost to insure that we as an organization should be able to perform among the peer group in the better category.

That's all from my side in terms of sharing of information on our order book. I'm available for Q&A portion. Thank you very much.

Questions And Answers

Operator

Thank you very much. We will now begin the question-and-answer session. First question is from the line of Pritesh Chheda, from Lucky Investment Managers. Please, go ahead.

Q - Pritesh Chheda

Yes, thank you for the opportunity. Yes sir, few observations. So the current quarters number are without Minda KTSN. Am, I correct?

A - Ashok Minda

Yes.

Q - Pritesh Chheda

So just an observation I'm little bit perplexed as to why when an asset is sold like MKTSN, why we don't have any drop in depreciation or changes in other expenditure lines. If you could give some comment there? And second the gross margin reduction that I see, is it a function of the BS-VI product line supply if you could enlighten us on these areas?

A- R Laxman

Yes, sure. So two points, one is the reduction in gross margin is definitely -- couple of reasons, one is in the wiring harness the shift from BS-IV to BS-VI has costed us our gross margin reduction. Some of it is temporary like the labor productivity or raw material indexation and some of it will take a little longer, which is the change in product mix where we used to heavily supply to commercial vehicle, which was a slightly more profitable business.

So that's the answer to your question. Coming to that depreciation Pritesh, the depreciation part yes, in die-casting et cetera we have been expanding and there will be a small lag in catching up between depreciation and the sales. Other expenses partly has increased because of specific COVID-related challenges and we do not see that to be very sustainable number. Moreover, the last year number have been also restated and are without MKTSN.

Q - Pritesh Chheda

So I can see a 200 bps reduction in gross margin, and EBITDA margin at about I think 10% for the quarter. We had during the Minda KTSN call at the time of doing the transaction had done a call and called out that the margin in the business should comfortably be about 11% to 12%, right? So, where are we on that journey, and if you could give some direction on the gross margin expansion incrementally and EBITDA margins incrementally?

A- R Laxman

Thanks it's a good question. I will talk about EBITDA margins, gross margins do get impacted because of the mix et cetera, whereas EBITDA also captures the savings that we do in fixed costs as well as all of them are points with respect to the operations. Now EBITDA margins, I believe we've firmly moved to a double-digit EBITDA margin.

Now moving from 10 to 11 and thereafter is a quarter-on-quarter or a season-on-season - exercise, and that is something which we believe that it will steadily increase, because the challenges are behind us in terms of structural challenges and the COVID-relate. We are seeing green shoots across segments I would request Mr.Minda also to add his views in terms of where we are going in our journey, but Pritesh my point is that in terms of margins we are definitely moving towards the consistent double-digit EBITDA.

A- Ashok Minda

As Laxman mentioned, and we have shown in the presentation also that one area is the indexation in which it is one time impact in this quarter, which is not definitely not going to happen in the next quarter, not that significantly. The another is, the month-on-month there will be improvement in labor productivity. So that will also improve the EBITDA. The product mix which the passenger -- commercial vehicle that will also add the better margin product and that will also add EBITDA margin and the another area is that the BS-IV to BS-VI the localization, although it is little longer, but there is a good content of the imported material, and we are in the process of localization that will also give us a benefit in reduction of the raw material cost, and all those factors will help us not only sustaining

the double-digit EBITDA margin, but also improve in all those incoming quarters.

Q - Pritesh Chheda

And I couldn't gather your answer on the depreciation side, so ideally the depreciation should reduce right when you are sold such a bit assets outside India? Which was 25% i.e. one-fourth of your sales?

A - Laxman Ramnarayan

No, no. Depreciation is the Apple-to-Apple comparison.

Q - Pritesh Chheda

Okay.

A - Laxman Ramnarayan

The reason is because June -- because of lockdown et cetera, it was a one shifts depreciation, and now we are back to our two or three shifts depending on how the plants run. So I think it will be better to look at a couple of quarter's numbers, and full year numbers because Q1 and Q2 as well as this post-COVID ramp up has distorted comparisons a little bit.

Q - Pritesh Chheda

And sir lastly, I'm just seeing press release there is this fund raiser of 1,18,00,000 equity share INR83 crores. What is this? And why is it done?

A - Ashok Minda

I would explain Laxman. The funds or equity fund raising, diluting at these prices, that we are looking at the long-term benefit of inducting such a financial investor given the value addition expected that we believe this is a small dilution at this current price, and we believe that this phi capital contribution to the company will far out with a small dilution that is being currently proposed, because as I mentioned in my speech, the phi capital has that auto industry expert on their advisory board and in the investment team, and we expect though this wealth of experience for the company to benefit, and so the investment in the company is cementing of their commitment and this will help us to create a long-term sustainable value to all the shareholders.

Operator

Thank you very much. Next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Q- Riddhesh Gandhi

Hi Sir. Just a couple of questions, if you could just emphasize again for us what's the value addition you are expecting, because as for at least our analysis you were effectively sold INR80 crores of equity at the \$0.50 on the dollar, and therefore effectively I mean, I just can't understand why you would dilute equity at this price that to a private equity. It isn't

like it a strategic who they giving you orders on this table or any of that, and would also like to understand if there's any kind of conflict of interest in it, if the promoters are also having investment in this private equity entity at all?

A - Ashok Minda

There are two three questions coming out that, although there's no pressing need for the funds. It definitely enhance the company's ability to dream bigger and look at larger investment, but yes, there is no pressing need of the further fund, but we have the plans to go to the next level with future technology, competency and potential investment.

So the funds can be little more beneficial. As I mentioned you in my material, that is how to build a sustainable businesses and creating long-term shareholder value through their operational partnership, and that is what is we are seeing that how and we should be aligned with them and take their wealth and their expertise in different areas to put together. We think it will greatly benefit all those existing shareholder in enhancing the value of their holdings, which is the reason for doing that.

Q - Ritesh Gandhi

And is there any kind of conflict picked up interest. Are you an investor also in actually -- is going to capital at all? Do you have any investments in the AIF in their fund?

A - Ashok Minda

There is no conflict of interest Ritesh.

Q - Ritesh Gandhi

So we don't have resources, so I think the promoter or any of the promoter interest have no investments in the AIF? Is that right?

A - Ashok Minda

No. What is AIF?

A - Ashok Minda

No, no. Not at all. That it -- not at all.

Q - Ritesh Gandhi

Okay, okay. Sir and the other question is we also saw that Mr.Laxman has also resigned, just wanted to get some degree of granularity on the reason behind it, because obviously he's been instrumental also and had given investors a lot of comfort? So if you could just actually emphasize to us the reason of the resignation?

A - Ashok Minda

Yes. I think Laxman can add after I have answered this question, right?

A - Ashok Minda

Let me start, since last 3.5 years, Laxman has been operating out of the Gurugram, let his family who continued to be based out of Mumbai to various family obligation which can be very challenging at times, and then Laxman has a desire to pursue the things which is closer to his heart, Laxman has been in our board since last 10 years, and in 2017, he became a whole time Executive Director of Spark Minda Group in the capacity of Group Chief Financial Officer.

So that is why we decided myself and Laxman and he will continue to be in the board of Minda Corporation Limited in the capacity of Non-Executive Director, this is what we have decided - Laxman over to you, you can add more.

A - Laxman Ramnarayan

Yes, thanks Ritesh, for that question, and it's a pretty personal one and I will share with you. I have enjoyed the last 3.5 years or 3 years and 8 months. However, physically it's been very, very taking a toll in the sense. I've been flying every weekend to Bombay and back from Gurugram, so and post-COVID it's just made it even more difficult and then with the family finally we decided to settle back in Bombay. So it's pure decision based sort of family compulsions nothing else, nothing more, nothing less. I am absolutely continue to be a cheerleader for Minda Corporation and I will continue to be -- I mean thanks to Mr. Minda, I will continue to be on the board as a Non-Executive Director from 31st so this December.

Q - Ritesh Gandhi

And sir last question with regards to the private equity investment, is it subject to approval of all shareholders or all shareholders excluding the promoter.

A - Laxman Ramnarayan

My answer is I don't think the promoter is interested party in this at all and we will go exactly as per the compliance.

Operator

Thank you very much. Next question is from Chetan from AlfAccurate Advisors. Please go ahead.

Q - Chetan Gindodia

Hi, sir. Sir, I have two questions, firstly, so what is the private equity player bringing on the table for us, in terms of immediate orders or anything or what kind of advisory or cost-benefit can we get from their advice or consultancy in our business, price of INR70 and we already have a net cash balance sheet, so why dilute this? This is the first question. Thank you.

A - Ashok Minda

Okay, I have all already replied the same thing, Laxman if you can add further what I have explained before.

A - Laxman Ramnarayan

So my addition to your point Mr.Minda is not too many, but Chetan I will say this that point number one is there is a lot of value that is specialized investor brings to the table in terms of expertise, in terms of attracting the right long-term further long-term investors strategizing capital allocation, okay and developing an EV strategy for us, there were lot of things that we can probably learn from industry experts and the current private equity fund does have a very, very credible bouquet of industry experience in it. And for that and the entire value add that they give and if there is a commitment that one has to kind of put in terms of a dilution, which is I would say small because it's less than 5%. I think it would benefit the entire lot of shareholders to that extent I would say no of course additional money gives us more leverage to do larger investment, but that's the second point.

Q - Chetan Gindodia

Hello. Okay sir. Sir, second question is with respect to RM indexation. So by what time -- timeline would you expect this RM indexation to be passed on completely? And what would be our EBITDA margin guidance from here on for next year not for the immediate next quarter, but for next year, for next two years, what would be our EBITDA margin and guidance now double-digit you have already alluded, but what sort of numbers should we look at can it be closer to 15% or what? Can you just help us with that?

A - Ashok Minda

See, first point on the RM indexation it normally gets set and corrected in the next quarter. So you will start seeing it corrected in Q3. Of course it always one quarter lag when correction happen.

Q - Chetan Gindodia

Sorry. What would be the impact -- percentage impact of RM indexation on gross margin this quarter?

A - Ashok Minda

On an EBITDA basis we would have -- it would have impacted as by maybe I would say close to about more than 150 basis points on that business.

Q - Chetan Gindodia

Okay continue sir.

A - Ashok Minda

And this indexation we have a back to back arrangement with the customer but when the prices goes high we impacted on the negative side with the prices come down with of the positive side.

Q - Chetan Gindodia

Okay. Okay sir. And with respect to EBITDA margin?

A - Laxman Ramnarayan

Into your second question see, our long-term vision is to consistently increase the EBITDA margin. Our first -- what shall we say line was to the across the double-digit EBITDA and thereafter grow consistently. Whether in terms of a two-year guidance, we are not yet sure to hazard a two years guidance right now. I think we should wait for a couple of quarters for the post-COVID numbers to stabilize, but we are very clear that we would like to consistently deliver double-digit EBITDA number. Mr.Minda if you would like to add any point.

A - Ashok Minda

Yes, we expect them to the market continued to be like that, and the reason what we have explained in that the indexation, the localization, the productivity improvement, the aftermarket and the export sales growth all will definitely increase quarter-by-quarter the percentage of EBITDA margin.

Q - Chetan Gindodia

Okay, okay. Thank you, sir. Thank you for your detailed insights.

Operator

Thank you very much. Next question is from Mayur Malik from BOB Capital Market. Please go ahead.

Q - Mayur Malik

Hi, so trying to understand two things here. One that you're saying that -- just trying to read it the other way around for the private equity investment. Are you saying that this was more like a deal where they also said that they would like to benefit what they do for us in a longer and by actually taking an equity in the company rather than upfront fees or something like that for their services?

A - Ashok Minda

Yes, that is why the commitment that brings additional capital as a part of their commitment to achieve the common goal, and the common goal of all of the shareholder is how to increase the value and there is no pressing need of the fund, but with jointly working with their team in which I have already explained will definitely add value and that is the objective to bring value for the shareholders anyway.

Q - Mayur Malik

Right, and when you say no pressing need of the fund, I also want to understand we had raised funds earlier as well, and I think that still sits on up balance sheet as cash. So I haven't really found any anything very interesting to really invest the ideal cash. I mean at the end of the day depresses all the returns, right?

A - Ashok Minda

Yes because I always feel it is better to part the fund instead of spending somewhere, which is not fulfilling the norm. So the most important is the capital allocation is very, very important, and so it's really get anything which will fulfill the norm and which will definitely

increase the shareholder value. There we are going to invest that money, and that is what we have seen in the past and definitely we will invest there. Whatever the money we have in our kitty, we will be investing the allocation of that capital will be very carefully, see that how we can benefit to all the shareholders.

Q - Mayur Malik

But do you have anything I mean, since you are very clearly mentioning there is nothing immediately pressing. Do we really look at any investments coming before FY'22 or you think it is a -- it is something beyond next 12 to 18 months?

A - Ashok Minda

We are working for the various options as I mentioned you -- it is a continuous process to identify within the portfolio, within the synergy which we have instead of going here and there, and with a continuous process to identify subject to fulfilling the norm and giving us the benefit in the shareholder, but it is a continuous process.

Q - Mayur Malik

Yes, and with this private equity also assist us in identifying?

A - Ashok Minda

Yes, very much.

Q - Mayur Malik

Investment opportunities?

A - Ashok Minda

Yes very much. They have a good experience in EV sector, which Laxman has mentioned and definitely their team which will also support us and will also involve them to identify the products and the businesses we can go for further investment.

Q - Mayur Malik

And then sir -- yes, I do understand that you would have taken a rational call, but just trying to -- what probably is not getting digested from I understand from the call, I think from most concerns that we have that we could have always had them as consultants and we could have awarded them based on a percentage profit as and when they would have delivered. Diluting equity at this price I do not -- it doesn't really gel with the overall need for this at this point.

A - Ashok Minda

Basically, it is also possible but now the commitment is much, much more commitment because everyone who is going to invest, they want return of that investment. Hence the equity dilution is less than 5%, but I believe that if the overall return for their investment increase, the value of holding of the remaining shareholder increase much more value, but the ultimate big goal and the target is how to increase the shareholder value that is the

objective of bringing them, it's not an investment, it is a partnership, operational partnership, which will increase the shareholder value.

Q - Mayur Malik

Right, and sir last question on the operational side of the business. So are you fairly confident that the performance that we've seen in Q2 will now be a standard at least for Q3 Q4 going forward. As in this should be the least minimum that we should expect if things remain the way they are?

A - Laxman Ramnarayan

I think two factors will play strongly in this case for us, we are apart from the market how it is expected to do is going to be one factor but operationally organization is geared up to meet the demand, it is very evident.

We have been able to meet most of our customers order booking, which have been coming in, so in spite of COVID challenges. So and we have a very healthy order book as I mentioned at this point of time for the quarter three and quarter four both. So we are keeping ourselves ready so that if the market continues to remain stable and growing we should be able to meet all that requirement. To answer that question

A - Ashok Minda

And the addition to that there are so many areas which is one-time expenditure in this quarter that also we will get the advantage going ahead. I think all these -- the market and all this continue to be there definitely there is going to be the continuous improvement.

Operator

Thank you very much. Next question is from the line of Chirag Shah from Edelweiss Securities Limited. Please, go ahead.

Q - Chirag Shah

So the question is that the Board Members or The Advisory Members that you mentioned about phi capital they are the advisory members or they are the active members of that entity, because it's a great experience is there active members would be more of relevance to it, right? And if they are just an advisory nature then how would it be, can you just throw some light on that? The advisory board in phi capital that you mentioned are they active members or just advisor?

A - Ashok Minda

They have an operational team, I've told you they're all operations. They also have the Advisory Board, but as you very correctly said that Advisory Board is for the advice only but we are others what they might have taken they are the operational member and that is going to be the advantage which we wanted to have and we want to take advice with this alliance.

Q - Chirag Shah

Phi Capital investments is in auto ancillary and automobile. So how do you see the or which are the areas that you see their expertise, i.e. on operations front on client interactions

front or this is primarily from investment perspective that they could help you out in that. So what are the key areas that you're looking at from them because you could have might as well take them on board with an equity offering given to them?

A- R Laxman

Yes. Chirag actually I think it's a point where you're saying one what they are bringing to the table, and there is a need what shall we say dilution that needs to be done to ensure long-term commitment and for working on these objectives that we are talking about. So therefore we think, end of the day it increase the size of the pie or value creation much more for everybody to be Part of it . Point number one. Point number two to your question is, in terms of what they bring to the table I think as Mr.Minda mentioned, they are people who are very senior there and were also having operational expertise which they can bring to bear in terms of their experience on the table and second yes strategic objectives to operational objectives it covers the whole, what shall we say plethora of areas that one can look at. Of course we will have to see that the right blend of what we have in house and what we take from them in terms of expertise and but our belief as management is that it'll be value accretive in the medium to long term.

Q - Chirag Shah

So sir my question was also then why not offer the board seat

A - Ashok Minda

Chirag, as you said that what is the strategy bringing in that these are the operational team they have and what is this, the technology side, the strategy side, the finance side, from EV side, manufacturing side. If you see there the name what I've said they are the expertise in all these or they are these in all these areas. And addition to that they are investing also to show their commitment and that is why I would say they are bringing in and how to take it forward this company and how to increase the share value or all the shareholder is a basic objective.

Q - Chirag Shah

Okay, sir. Sir, second question coming back in that margin side impact on our gross margin because of commodity indexation issue? And this indexation issue is largely to for which commodity, is it primarily for copper or it is across because in for die-casting use for the other commodity different. The indexation issue is coming in which commodity actually primarily?

A - Ashok Minda

See if you have seen the presentation of Laxman the business our wiring harnesses business it's the main reason and there is a copper in the wires with majority raw material contained is the copper, so that impacted substantially there.

Q - Chirag Shah

Okay, and when you say it is likely to revert basically you are indicating that the next quarter the indexation would not so the impact would be on immediate basis or there could be further lag the reversal impact?

A - Ashok Minda

We have a back-to-back arrangement quarter wise. So every quarter if it is an increase as per the previous quarter we will get our price amendment. And if it decrease accordingly that our buying is less, but we get the higher price from the customer. So that is why I mentioned when the price will increase, there is a disadvantage to the company and when the price comes down there is an advantage to the company, and this is the cycle that is what is the pricing indexation has been done with the customer.

Q - Chirag Shah

And so basically if copper keeps on increasing it keeps on getting postponed, because we are up by a quarter. If the commodity price keeps on increasing then the impact will be at similar right, the copper has to be stable for this indexation benefit flowing in the P&L?

A - Laxman Ramnarayan

That is correct Chirag any -- we need to reach a stable level of pricing and not as important as whether it is high or low, but as long as it's stable we will be able to correct this.

Operator

Thank you very much. Ladies and gentlemen due to time constraint that was the last question for today. I will now hand the conference over to the management for closing remarks.

A - Ashok Minda

Yes, thanks for participating in the call. And looking ahead, we are consciously optimistic for the second half of the year as our initial phase of festive period is indicating the sustenance of the demand. We have discussed a lot about this and I have explained about my intention and I wish definitely how we should do the consistent growth to achieve the expectation of all the shareholder. And then I once again, thank you for our entire Minda team, our customers, our vendors and all the stakeholders for their continuous support, which has allowed us to navigate through these challenging times. Thank you, ladies and gentlemen. Thank you very much.