"Minda Corporation Limited Q2 FY2020 Earnings Conference Call"

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Moderator: Good day, Ladies and gentlemen and welcome to the Q2 FY2020 Earnings Conference Call of Minda Corp Limited hosted by KR Choksey Shares and Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Parvati Rai, Head of Research at KR Choksey. Thank you and over to you!

Parvati Rai: Thank you Margaret. Good evening everyone. On behalf of KR Choksey Research, we welcome you all for the Q2 FY2020 conference call of Minda Corporation Limited. I take this opportunity to welcome the management of Minda Corporation represented by Mr. Ashok Minda, Chairman and Group CEO, Mr. R. Laxman, Executive Director and Group CFO, and Mr. Bikash Dugar, Lead Investor Relations. So, we begin the call with a brief overview by the management followed by the Q&A. I now hand over the call to Mr. Ashok Minda for his opening remarks. Thank you and over to you Sir!

Ashok Minda: Thank you. Good afternoon, ladies and gentlemen. I welcome you all to the Q2 Financial Year 2020 Earnings Conference Call of Minda Corporation.

In Q2 FY2020 the company reported revenues of Rs.7355 million a decline of 5% on year-on-year basis. The various austerity measures that we are implementing have helped us to keep our employee cost lower in absolute number and also check the capex spend and improved working capital management.

I am pleased to announce our association in the field of electric mobility with Bajaj Auto India's leading two-wheeler manufacturer. Minda Corporation to supply Keyless system along with few die casting components in Bajaj Chetak e-Scooter.

We also had fast breakthrough in electrical vehicle in export. Bagged order from Etergo which is Netherlands based company to supply electric steering column lock, seat latch and wiring harness. This is significant achievement of our advanced R&D center, Spark Minda technical center, which is working on various breakthrough technologies and innovative ideas in electric mobility.

I am also proud to announce that Spark Minda foundation was awarded the national CSR award, highest recognization for CSR activities by Government of India. The award exhibits our core values and commitments towards contribution to the social development of society.

We continue to remain cautious for the second half of FY2020; however, expect FY2021 to recover due to normal monsoon and number of measures taken by government to improve overall economic activities. Moreover in FY2021 we will be one of the beneficiaries due to BS-VI implementation as a content of some of our products will increase. Now we shall begin the discussion of the detailed financial overview and insight on operational performance. With this I hand over the call to Mr. Laxman, our Group CFO. Over to you Laxman!

R. Laxman: Thank you Mr. Minda and good afternoon ladies and gentlemen. Welcome you again to the Q2 earnings call. I will be referring to the presentation that we have uploaded on the website and for ease of reference I shall quote the page numbers and I will take about 15, 20 minutes as usual and leave the rest for question and answer session.

I now move to slide #3 of our presentation. We have redrafted the schematic representation of Minda Corporation to give a picture as to how it looks, post all the merger actions that we have done over the last one year to bring together a more synergistic and very efficient organization called Minda Corporation. At the top of course we have promoter shareholding at 68.1% and the balance approximately 32% is with public. The middle box is all our domestic operations comprising all the different legal entities that we had, which is merged into the listed entity called Minda Corporation, which is safety, security, die casting, starter motor alternative, wiring harness, and our newly acquired telematics business and the aftermarket.

On the left hand side you will find the 100% owned legal entities, which is the KTSN Group in Germany and ASEAN Group. On the right hand side you will see the three joint ventures that we have, which is Minda Stoneridge with a 51% stake, Minda VAST where we have a 50% stake and Furukawa Minda where we have a 25% stake. This is a legal entity schematic and however we have our business verticals, which are Mechatronics, Information & Connected Systems, Interiors & Plastics and Aftermarket. Each of these businesses is represented in the similar color in the boxes above.

To summarize we have now one strong standalone merged entity called Minda Corporation in India. All the Indian subsidiaries are subsumed into this box and apart from this we have only three joint ventures in India and because their joint ventures they have to be owned separately and we have two groups of businesses overseas, which are 100% owned. So this has led to a cleaner, a sharper focused business operations of Minda Corporation. We have already started deriving benefits from synergies, treasury operations and a leaner and a cleaner governance structure as well.

Moving over to the next slide, which is slide #4, this is a quick summary of where we are one of the leading India's leading automotive component companies revenue of 3000 plus Crores in FY2019 again four business verticals, key customers, which is one of our greatest strengths, our manufacturing facilities remain the same at 34 globally, our R&D center in Pune continues to be one of our forces to reckon with, of course our market capitalization is what it is as on September 30, 2019, which is 2163 Crores.

On the right hand side you will see the revenue breakup from the first half. Now this pie chart has largely remained similar over the last many quarters if you go by geography we are 67% Indian about 28% comes from Europe and North America and 5% from South East Asia. By end market if you see the splits we are two and three wheelers is about 42%, commercial vehicle is 20%, passenger vehicles is 27% and aftermarket is about 10.3%.

So here you will see that our passenger vehicles comprises our KTSN operations as well as our exports that we do, which is die casting which is more into the four wheeler plus category.

If you look at business verticals our interior plastic is about roughly 20%, Mechatronics and Aftermarket together contributes about 47% and Information & Connected Systems is about 31.8%.

I am going to the next slide and this story has also been unfortunately it has been consistent in the sense that the first half of FY2020 the auto industry degrew by about 13.4% and the brunt of this fall was taken by commercial vehicles at 26.9%; however, if you go to Q2, which is the last three months you will see that the fall has been steeper at 16.6% and again commercial vehicles had been the sharpest fall at 38.6%. Of course we have also been impacted by this because the value per piece of commercial vehicles wiring harness is much larger than any other category and therefore that impacts our turnover.

Of course the reasons for the change and the decline continues to be the subdued economic environment, phasing out of BS-IV, tightening of financial availability and there was also postponement of demand because of some anticipated GST cut, which eventually did not happen.

Coming to our results on slide #6, our operating revenues for Q2 ended FY2020 was 735 Crores as against the same period in the last year was 773 Crores on a consolidated basis. This has resulted in a 4.9% fall in a consolidated basis and I will come to the details of how this 4.9 has been constructed. The EBITDA margin has been down from 10.6% we have moved down to 9.3%, the absolute number is 68.4 Crores earlier it was 82.3 Crores. Similarly the PAT numbers has gone down from 46 to 37 Crores; however, the PAT margin has reduced only from 5.9% to 5%. If you look at the first half of the year there has been a 7% decline in overall sales and EBITDA margin has gone down from 10% to 9.4% that is a 60 basis points drop over the first six months. The PAT margins have gone down from 5.3% to 4%.

Moving to the commentary for the quarter on slide #7, on the left hand side you will see the bar charts pertaining to the quarter and on the right hand side you will see the half yearly numbers. So you will see that the quarterly sales is 4.9% drop and you will see that the constituents of that the domestic sales has fallen by actually 14.8% this was compensated by higher tooling sales in Europe. I would like to bring to your attention that European tooling sales in Q1 was substantially hit and because there was a postponement of billing and we had said that it will happen in Q2 and that billing happened in Q2 so therefore if you see on overall basis in the half year the impact is more or less neutralized.

On a EBITDA margin basis we said that EBITDA margin is 9.3% the reason for that is one there was adverse product mix so therefore the margins do fall, two reasons your commercial vehicle business has gone down, in Europe when your tooling business goes up that also impacts my product mix. Lower absorption of fixed cost due to lower revenue, in India my revenue fell down by 14.8%. Higher breakeven sales in Europe has remained our challenge and while we are continuing to address this in the medium-term. There has been some offset in this by reduced employee cost as Mr. Minda has pointed out. There is a 50 basis point reduction and there is also an absolute amount reduction by close to 10 Crores for the first half.

The profit after tax was 37.2 Crores for the quarter, which is resulting in a margin of 5%. Of course the impact of this is one is lower EBITDA margins; however, the fall has been partially offset by the lower tax rate in India. In fact the lower effective tax rate has saved us about 4 Crores, our lower income has resulted in about 11 Crores reduction and we also have a restatement of deferred tax liability of about 4.5 Crores, all these three things has constituted in the lower tax outflow for H1.

I will move on to slide #8 our networth has moved up from 1195 Crores to 1236 Crores. Our gross debt on a consolidated basis has gone down by 96 Crores to 584 Crores. Simultaneously our cash balance has also increased to 418 Crores that is a 51 Crores increase. So overall if you see a reduction of debt and an increase in cash has resulted in about 148 Crores of net change at that net debt level. This has resulted in our net debt ratio falling down from 0.26 to 0.13. Subsequently our capital employed has also fallen. However you will notice that our ROCE has fallen from 16.4% to 12.2%. The key reason for this is my EBITDA fall has contributed to about 5% fall in my ROCE; however, my capital employed reduction has contributed only to 80 basis point increase in the formula.

So that is the reason the net has fallen, we continue to focus on the reduction in working capital as well as increasing of the numerator, which is the EBIT and hope to correct this number in the next one or two quarters.

Happy to share with you that CRISIL and India Ratings both continue to maintain their ratings for the current year as well, in fact CRISIL has recently reaffirmed their rating which is A+ stable for long-term and CRISIL A1 for the short-term.

Moving onto the business wise specific slides in slide #9 you will see that the first box, which is Mechatronics and Aftermarket there the sale has gone down by 2.4%. The reason is the revenue of course has degrown, but it was positively impacted by higher exports. Exports overall grew by 20% and specifically the die casting exports grew by 70% in H1. Aftermarket which is the second non-OEM engine of growth that we have grew by 8%, so our theme of saying that this two pieces of our engine, which is one is the exports and second is aftermarket will help us arrest some of the fall in the industry has come true wherein the exports grew up by 20% for this vertical and aftermarket grew by 8%.

The information in Connected Systems has fallen by 12%, the revenue decline is largely impacted by a 27% fall in commercial vehicles and EBITDA margin has fallen from 10.3% to 9.4% that is about 90 basis point fall.

Our plastic interior business the revenue has fallen. Overall in H1 you will see that there is lower tooling as compared to the same H1 of FY2019 and the fall is 8.4%. EBITDA is also impacted due to increase in raw material cost as well as the challenges in Europe. So we report a 0.3% EBITDA margin as against in the first half of last year we reported 3.6% EBITDA margin.

The good news is that our order book continues to remain robust, in Mechatronics in Q2 itself we have won orders worth about 850 Crores and till now if you look at it the lifetime orders is about 1300 Crores. We have been awarded new business globally for the locksets for two wheeler OEMs, which is lockset and fuel tank caps. We have received a new order for alternator from a leading global tractor OEM and we have been awarded new business in the passenger vehicle OEM for supplying locksets.

In the Information & Connected Business we have been awarded wiring harness in a leading domestic tractor OEM, which is about 10 Crores of business. We have won a prestigious wiring harness component export order for two Wheeler Company globally and we have been awarded new business for a leading three wheeler OEM in India for instrumentation cluster.

The key point here is we have been winning orders across our product segments and that is satisfying more as much as the quantum of the order. For example we have been winning orders in locksets, in fuel tank caps, in wiring harnesses, in wiring harness components as well as instrumentation cluster so this is a little bit of a satisfaction to say that across our product segments OEMs are backing us.

Plastics and interiors we have not won any new order in Q2 and it is a conscious decision, our objective has been largely because it is European based we need to diversify our customer base and we have been fairly active pursuing RFQs at this stage with our non-large customer so that we can diversify our customer base, this will take a little bit of time to fructify.

We mentioned about exports that have received again new orders for die casting parts. These are new orders but they are from our same customer. Second we have won prestigious order for wiring harness for two wheelers again in exports. So these are the two large exports that we have looked at.

On slide #11 it is more detailing of what Mr. Minda pointed out extremely proud movement for us for partnering with Bajaj Auto for e-mobility and of course we are now seeing green shoots converting into actual orders and converting into supply, which are measurable in our initiatives from our R&D center. So this is very satisfying for us that our existing customer chooses us based on our R&D strength to launch their top of line new and new age e-vehicles. It is equally proud as Mr. Minda pointed out was the National CSR award which we own from the Government of India for exemplary initiative in the field of differently abled community support.

On slide #12 we continue to focus on the same thing that we mentioned earlier. In some cases the thrust has been extended over one, two or three quarters because of the slowdown in the auto specifically when we are talking about premiumization. In terms of BS-VI there has been no let up in the initiatives or the orders that we win, we are well on the vehicle service all our customers with respect to BS-VI.

Our global European challenge remains and we continue to work hard towards stabilizing that business hereafter and our two, three engines, which we have bagged with respect to aftermarket and exports continue to deliver for us. So that is largely brings to an end my summary of the financials and the business that we have and we are happy to take any questions that you have gentlemen and ladies. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ronak Sharda from Systematix. Please go ahead.

Ronak Sharda: Sir the first question is on slide #9. Laxman first question is on slide #9 if you refer to slide #9 where you highlighted H1 growth can you highlight what has been the industry volume decline for each segment you cater to, so we will just understand the outperformance or underperformance how has that been for each of the three segments?

R. Laxman: See effectively if you look at Mechatronics, in Mechatronics if I say largely two wheelers the industry has gone down by about 13%. I am putting rough numbers to you in terms of the fall because the Mechatronics is largely I would say about two wheelers and of course commercial vehicles as well a little bit. If you look at my second segment which is Information & Connected Systems it is fairly dominated by commercial vehicles. Commercial vehicles in H1 have gone down by about 27% so these are the two numbers I have Ronak. In Europe the fall I would say has been more in the range of maybe 3% to 4%, but if you include our tooling then the fall has been much sharper so that is where we are suffering from.

Ronak Sharda: And assuming your volumes recovery in H2 along with BS-VI related content increase do we see benefits coming in from the operating leverage or the BS-VI component initially might be margin dilutive how do you see both playing out if there is an utilization and BS-VI cost?

R. Laxman: I will answer that question in two parts Ronak. Part number one is internal and part number two is external. Part number one is we have undertaken a very strong austerity measures for Q3 and Q4 and some of it we implemented in September. With that we are expected to substantially reduce our fixed cost so that the dent on our EBTIDA is minimize so that we can measure this in ex basis points rather than in multiple percentages that is something which we are doing internally. However with respect to external the industry what we see is we do not see major changes in our Mechatronics business positive impact due to BS-VI of course there is a marginal impact. In the first box itself in aftermarket we continue to expect almost a double digit growth in our aftermarket that is point number two. Now when it comes to a middle box of Information & Connected Systems we expect the commercial vehicles to continue to show decline; however, the BS-VI positive impact is largely on my two wheeler business that business where the volume is almost, where the value is almost going up by 2.5 times approximately, which may go maybe up to 2.2 or 2.5 based on how aggressively the OEMs cut cost from day one. So we see that being positively helping us in Q4. So that is the analysis with respect to box number two and box number three we expect the effect to the degrowth to remain stabilized.

Ronak Sharda: But CVs also should see benefit from BS-VI right in the wiring harness we had highlighted and there is some 30% to 40% increase in content?

R. Laxman: Maybe not as much as 40% there is definitely some improvement in BS-VI wiring harness content for the commercial vehicles. When volumes are going down by 25% and 30% there is I would expect it to be set off, but my one more point is if BS-VI adoption is going to go in February or not being starting from December then the measurement of that impact in my Q4 will not be as much.

Ronak Sharda: And coming back to the balance sheet performance strong in terms of working capital reduction and cash generation for the first half, is this more sustainable now assuming increase over the next 12 to 18 months will we be able to maintain the cash conversion ratio at current level?

R. Laxman: Thank you for highlighting this Ronak. Our balance sheet improvement in the first half has been extremely good, it has been due to positive actions from our side as well as a very, very close monitoring as well and therefore if you see overall it has resulted in 148 Crores delta with respect to gross debt change and net cash change. I do expect the direction to be same going forward in the next six months and thereafter the six months thereafter. However I must be frank to say that this drastic change is usually onetime because the improvement you will do after a huge cut will be incremental, and add to that I am having a BS-VI challenge wherein a more of money should be when I am expecting my sales to go up by two-and-a-half times an equivalent amount of money will be absorbed in working capital as well.

Ronak Sharda: Correct, so that is why I am asking the ratios will be constant I am not asking about absolute number but will the ratios which we have demonstrated?

R. Laxman: Let me tell you the ratio should be definitely better than March FY2019; however, this onetime drastic change in September could be a little tempered.

Ronak Sharda: And coming onto your order wins, the export order wins substantially over the last three, four quarters how do you see the benefit on profitability because of this are they adding incrementally profits for each segment?

R. Laxman: So exports overall is definitely adding to my profitability and my EBITDA margins overall in exports is at least 2% to 3% more than what I am doing in domestic even if I factor in the longer cycles of working capital of course, interest cost does not get factored in EBITDA and since it is now less than 10% of my overall sales the impact on the overall EBITDA is still in basis points; however, we expect this to increase over the full year of FY2020 and in FY2021 substantially as we work towards our goal to double our exports in the three years period that we mentioned and we are on track to achieve that Ronak.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir first of all congrats to the entire team for significant improvement in balance sheet and I would say satisfactory performance considering very challenging environment. My two questions are first in terms of the die casting exports if you can just give some absolute number 1Q, 2Q and last year what was 1Q, 2Q and second question is with reference to the plastic segment whether at the worst level should we assume zero EBIT in this current year and what one should expect next year in terms of the various steps what we are taking?

R. Laxman: Sure, I will give you specific answer. The die casting exports for H1 in FY2020 was close to 49 Crores, if you compare this to the same H1 period for FY2019 is 29 Crores so that is roughly a 70% increase.

Rajesh Kothari: What is the 2Q number of die casting exports?

R. Laxman: The Q2 number of die casting exports will be about 25 Crores.

Rajesh Kothari: Compared to last year 2Q of?

R. Laxman: Last year must be about 17 odd Crores. Now your second point was on the EBITDA margins of the European plastic business, see over the last three to four quarters when the times have been challenging for us I would say the EBITDA margins have been hovering at the low, so now we are working towards improving the situation and therefore I would say that our focus is to ensure that it only gets better from here that is my frank answer; however, given the volatility of Europe and currencies I would not probably be able to put a specific number to it, our endeavor definitely is to ensure that the direction is only North.

Rajesh Kothari: Because we have seen the increase in revenue but that is not resulted in any good improvement in PBIT.

R. Laxman: Yes you are absolutely right Rajesh the increase in revenue is coming from my tooling sales where profitability is very volatile based on what the customer decides of tooling price and per piece price and we are hoping that the tooling hoping now as a reality also the tolling income keeps going down because there the rate of piece of model change and refreshers etc., in Europe is substantially reduced and because of that at least the volatility in my earning should go down I do not mind if earnings go down a little bit.

Rajesh Kothari: Just one very simple question on the net interest cost I am talking about gross interest less other income that is reduced significantly compared to 1Q I must say because the reduction in debt so do you expect that number to remain like this for the next two, three quarters?

R. Laxman: So see couple of reasons for the reduction in interest rate. Net interest there is a reclassification of Ind-AS 116, so that has impacted my net interest Y-o-Y upward.

Rajesh Kothari: No, I am saying your first quarter interest cost was 15 Crores, which has reduced to 10 Crores and your other income broadly has remained same 8.23 to 8.73 so my question is that 15 to 10 is it a sustainable one should assume going forward?

R. Laxman: Again it is not, if the reduction will be there but it will not be such a drastic fall we expect this to be less drastic going forward but the direction will remain south and what I will do is and also there are some adjustments in finance cost because of overseas interest rate recognition and currency translation and that is the working I can share with you offline.

Rajesh Kothari: No problem. Thank you Sir.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir just wanted clarification on the previous answer that you gave so second half which is some total of wiring harness, BS-VI related wiring harness supplies started to be delivered and corresponding decline in whatever volumes that your two wheeler and CV go through, some total will you start growing with effect Q3 or you would still be under a decline phase for a couple of more quarters?

R. Laxman: See Q3 I do not see impact of the benefit of BS-VI because today people have taken BS-VI volume from me more for showroom displays, little bit in the market because of one of the two wheeler OEMs, but given that we sell huge amount of two wheelers in India that volume is less and second is however the reality of commercial vehicle fall is the real one in Q3 so therefore to specifically answer your question in Q3 I will not see a net off in terms of falling volumes of other vehicles compensated by increasing volume of BS-VI; however, in Q4 we expect this too to neutralize and we hope to see much more robust Q4, but as of now the word is hope when we get more clarity we will definitely share with you.

Pritesh Chheda: And my second question is in the Europe subsidiary of ours is it that it is only the revenue pickup which would be a deciding factor for the margins or do you have any other levers and do you have an alternative course of or do you have an alternative course of action with the European subsidiary?

R. Laxman: In the short-term Pritesh the lever is only revenue because cost reduction in Europe is hard and long. This medium term our objective is to diversify our customer base so that we get slightly more profitable margins in our new business even if it means selling to Tier-I companies. In the long-term we are very clear, we will take a hard strategic look on these businesses, which are not up to our normal average earnings on P&L and balance sheet; however, what we have always said is we will be open to such analysis after we ensure that we will give you the best shot we have.

Pritesh Chheda: Do we have any additional orders that we have got in the European subsidiary?

R. Laxman: So in Q2 our new order wins in the European subsidiary is nil; however, our traction on RFQs has substantially increased in Europe, new RFQs from non-existing customers.

Pritesh Chheda: Lastly can you share your capex plan?

R. Laxman: I do not have a thumb key wise plan but I will give you broadly three businesses that we will be investing the capex. First I will share the numbers with you. In the beginning of the year our capex plan was more in the range of about 200 Crores, now that has got substantially down to maybe about 155 Crores is what we are targeting now and we hope to reduce it as well. Now where are we spending this money, we are spending this in die casting, we are spending this in BS-VI related initiatives and some we are spending with respect to SMIT technology, which we are converting, these are the three places where we are spending and the order also will be in the similar magnitude so that was what I want to share.

Pritesh Chheda: Die casting BS-VI and?

R. Laxman: Die casting BS-VI and certain capex, which we will do, which is emanating out of new products from our SMIT, which is our R&D. So these three things are critical, which we cannot postpone wherever there is an opportunity to either postpone capex or sweat our assets more there has been a heavy focus on that the reason we have been able to save 40 Crores is because of that, we hope to save a little bit more.

Pritesh Chheda: Perfect. Thank you very much Sir. All the best.

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

Abhishek Jain: We have the couple of questions from the Mechatronics and Aftermarket business. As you mentioned that in first half FY2020 our margin has improved 60 bps in Mechatronics and

Aftermarket because of die casting business and high contributions from the aftermarket, so just wanted to understand that what was the revenue contribution from the die casting business in overall Mechatronics and what was the revenue mix in terms of the domestic and exports in die casting?

R. Laxman: If you look at my die casting sales net of the inter company should be about 148 Crores in the first half, but this includes domestic and exports because domestic is in line with the fall in the domestic industry die casting has fallen and exports have risen so overall if you see from about 127 Crores of die casting has gone to 148 Crores, which is a 16% jump because of the exports over last year.

Abhishek Jain: And Sir what sort of the market opportunity you are looking in die casting business especially in exports?

R. Laxman: So the good news in die casting export market opportunity is there was more news meaning we are continuing to pursue same products with same customers that we won over the last two years. I have Borgwarner, I have Honeywell, I have Mitsubishi, these are the three customers to whom I am supplying die casting products and they have consistently increased their offtake from India and from Minda Corporation and therefore my visibility on die casting exports is good and the risk of this visibility is low because it is tested products with tested customers.

Abhishek Jain: And Sir how was the performance of ASEAN business especially from India, Indonesia and Vietnam?

R. Laxman: So our ASEAN business if you see H1 will be the sales growth would have been about 1%, but if you see the overall numbers my sales of entire ASEAN for first half is about 68 Crores as compared to my consolidated revenue of the first half of about 1400 Crores consolidated, so frankly it is a relatively small number.

Abhishek Jain: And so what sort of degrowth you are looking from this business this year because the last year you had done around 200 Crores so what is your target for this year?

R. Laxman: This year expected to be flat.

Abhishek Jain: And what sort of the growth figures are there for FY2020 if I assume the growth?

R. Laxman: You are talking about ASEAN business?

Abhishek Jain: Yes.

R. Laxman: So ASEAN business I do not expect any great significant growth and as I said in the first half on a turnover of 1400 Crores this has contributed about 68 Crores and if you compare this 68 Crores to the previous year's first half it is roughly 1% change.

Abhishek Jain: Sir what was the contribution of the two wheeler locking system in our Mechatronics in first half FY2020 versus FY2019?

R. Laxman: It will be easy there the profitability is probably in H1 it was 13.4% and if you look at only two wheelers it should be marginally lower and why I am saying that is because of my exports and aftermarket, which is part of this business yields me about 1.5%, 2% more.

Abhishek Jain: And another segment that is the starter alternator how was the performance in the first half FY2020 and what sort of the growth opportunity you are looking in this business?

R. Laxman: So starter & alternator motor is largely defined by the tractor market and in the first half this would have just give me a minute I will take out that number for you. Let me get back to you. The starter motor alternate business in Q2 was about 26 Crores in terms of revenue that is in Q2 so roughly half yearly is about 50 Crores and again the change in versus last year was roughly about I would say 5% to 6%.

Abhishek Jain: And what sort of the EBITDA margin you are making in this business because the last year it was only last year it turns profitable so we can assume that this year it will also show profit?

R. Laxman: EBITDA margin continues to remain single digit and low single digit and since the quantum of the sale is low it does not drag my overall profitability much.

Abhishek Jain: So what is the breakeven of this business what sort of the turnover is the breakeven for this business in terms of the profitability?

R. Laxman: No, I am still making positive at even 125 Crores of turnover per annum I am EBITDA positive so the breakeven should be more closer to 100 Crores so that is not a worry. The point is it does not perform as well as my other matured businesses. The reason is also clear that we will be investing in technology and upgrading these products over the next one or two years. This business was acquired about two years ago and from a loss making company to EBITDA positive company that journey is complete. Now the next phase of journey moves from EBITDA positive to improving the technology including getting new domestic customers.

Abhishek Jain: Sir my another question is related with your another segment that is the wiring harness segment so there our revenue degrew by 12% Y-on-Y basis so what was the revenue mix in two wheeler, three wheeler CVs and tractor in first half FY2020?

R. Laxman: I do not have that data with me right now Abhishek I will get back to you and that because we do not show revenue mix within any business vertical, we show overall revenue mix which I can share with you, but if you want something in more detail on a specific vertical feel free to come back to us.

Abhishek Jain: So what sort of the revenue growth you are targeting in FY2020 especially in the two wheeler wiring harness system, which will get the benefit from the BS-VI?

R. Laxman: As I explained that BS-VI benefit is expected only in February and March and a small part of it will come in January therefore in OEM business we will be in line with the fall of the OEMs offtake it will be only offset by our exports and our aftermarket.

Abhishek Jain: And Sir the plastic and interior segment EBITDA has gone down significantly in the first half of FY2020 so just wanted to know that what are the key reasons of such decline in the EBITDA and the second what is the contribution of Volkswagen in overall the revenue?

R. Laxman: I will address this question but I will quickly repeat it. One Volkswagen is a dominant customer of us if you look at the Volkswagen group and not just VW it is a dominant customer. Point number two our EBITDA is almost zero, so in terms of your question of where is this profitability headed, etc., I think we are still trying to ensure that the first stabilize the operations, diversify our customer base and reduce fixed cost and on that basis we would like to move forward and it is also slightly medium-term exercise and you will see results only over multiple quarters maybe in a year or so. Thankfully the good news is this contributes to less than 20% of my overall sales.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Congrats for a good set of numbers Sir. Just two questions one why is the employee cost down so any specific cyclical and structural reason for that if you can and how should we look at the number going ahead?

R. Laxman: Sure, so a very pertinent question Chirag my employee cost reduction has been pretty significant I would attribute 50% of that reduction is due to the flexible nature of the business that we have and that applies to the industry as well. The other 50% is more because of sustainable long-term effort that we have taken in employee cost reduction.

Chirag Shah: Is there a headcount reduction or it is better utilization of headcount?

R. Laxman: Yes, in the first part it is a headcount reduction because of the flexibility of the nature of manpower the first half the 50% that amounts to I think about 4 to 5 Crores and in the second part, which I told you is because of, of course small reduction in manpower, but more importantly freezing of the variable pay incentives, etc., at a senior most level as well as not increasing the annual increments for white collared across the board rather than we have done an improvement only in the lower grades. So this is a combination that is why the first half is more temporary because if business goes up that cost will come back however the second part is slightly more sustainable.

Chirag Shah: And would it be a right thing to say that once the business comes back in full swing some of this sustainable effort could see some reversal?

R. Laxman: No the sustainable effort will not see reversal. The first part which is variable in nature will see reversal. The sustainable effort Mr. Minda has been extremely focused on the fact that whatever we achieved in terms of fixed cost reduction or overhead cost reduction at a corporate level and at the business vertical level our endeavor will be to continue those so that we take benefit of that when the business turns around.

Chirag Shah: And second question was on this order book data that we share, is it possible to indicate that of the current revenue how much of the order that you are announced in last 12, 18 months how much of the order has started flowing in the P&L basically because we get a continuous order book, which is a very healthy disclosure, but if you can highlight on the conversion of the order book?

R. Laxman: I will attend that Chirag and what I do is I think we should try and see what percentage of my new business is coming from the order book developed over the last two years because it is a ramp up of orders frankly.

Chirag Shah: And one last question if I can just squeeze in, on this EV of Bajaj Auto the electric scooter is it possible to indicate the value content that you could provide?

R. Laxman: To be very frank with you it is confidential and it is also derived out of the estimate volume that Bajaj Chetak itself has and it will be unfair to outguess a leader and a customer like Bajaj who has a better pulse of the market than any of us. All I can share with you is we are extremely happy with that and the majority of their orders with respect to these products are with us.

Chirag Shah: I was more looking on per vehicle basis per unit basis at least what percentage of the vehicle value could be our contribution?

R. Laxman: It is almost Rs.6000.

Chirag Shah: Thank you.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: I was just looking at slide #24 in which we have put in this Minda VAS 50% JV in Mechatronics and then Information & Connected Systems we are putting Stoneridge and Furukawa so what proportion of revenue we get from these JVs in this segment?

R. Laxman: Can you say that again?

Dhananjay Mishra: The first two segments Mechatronics and Information & Connected Systems what proportion of bill sales we do get from these JVs?

R. Laxman: So overall if you see our total sales for the first half from JVs this is 100% share is roughly about 500 Crores and this is a split largely between business vertical 1 and business vertical 2 and ratio will be largely I would imagine 60% of that it is largely 60% of that will be coming into business vertical 2 and 40% will come in business vertical 1.

Dhananjay Mishra: So in FY2019 also like we had a close to 2400 Crores domestic revenue so that this figure would be 1000 Crores from these JVs?

R. Laxman: Yes, it should be largely this thing.

Dhananjay Mishra: And this wiring harness we do about 300 Crores in two wheeler and the remaining 900 we get from these JVs or what Furukawa and some other?

R. Laxman: No, we supply to commercial vehicles, we supply to tractors it is quite a wide mix.

Dhananjay Mishra: So we also do this Furukawa Minda how much contribution come from this?

R. Laxman: Let me be clear this business vertical wise performance here excludes the joint ventures that we have.

Dhananjay Mishra: No Sir that is fine because we are reporting about 1000 Crores full year basis from this Information & Connected Systems while last year we had a 50% revenue coming from wiring harness product that is close to 1200 Crores so just I was wondering on where is the mismatch?

R. Laxman: No, the 1000 Crores you are saying you are multiplying the first half by 2 is it?

Dhananjay Mishra: Yes I am taking last year number FY2019 number we did about 1000 Crores from this Information & Connected Systems?

R. Laxman: In the first half we did 522 Crores and equivalent to that we have done 459 Crores.

Dhananjay Mishra: Out of 1000 Crores we are putting wiring harness in this segment only right?

R. Laxman: Sorry where are you getting this 1000 Crores, just hold on, yes Bikash please.

Bikash Dugar: So the 1000 Crores Information & Connected Systems it comprises mainly of the wiring harness only nearly 995 Crores comes from wiring harness only and little bit of 5 Crores comes from telematics.

R. Laxman: So just clarifying none of the JV companies sales are included in this so you will not have a Furukawa sales coming into this.

Dhananjay Mishra: You have just put in, in the slide #24.

R Laxman: I do not see that which slide #24 he is referring to because I have this data in slide #9.

Dhananjay Mishra: No slide #24 in this Q2 Presentation.

R Laxman: So that is to define what my vertical consist of.

Dhananjay Mishra: It was little confusing actually.

R. Laxman: No, I will clarify. Now I understand what you are saying. This is more in the annexure B of our erstwhile businesses and in this the joint venture businesses are not considered in slide #9 that is the reason for the confusion got it. You get what I am saying know, yes. Any further clarification feel free to call us we will clarify to you.

Dhananjay Mishra: And Sir what was the exact tax write-back in this Q2 and how we should pick Q3 and Q4 in terms of tax rate?

R. Laxman: Our effective tax rate has substantially gone down if you took Q2 to Q2 9 Crores is lower in taxes because of lower income point number one. Point number two about 4.5 Crores is coming out of restatement of our deferred tax. Now because the tax rate reduction happened now the impact is more prominent in Q2, in Q3 and Q4 this impact will be less; however, our effective tax rate will definitely go down, it was earlier close to 30% I am expecting a good maybe 5% to 7% reduction in effective tax rate by the end of this year.

Dhananjay Mishra: So we are going to completely shift the new tax regime right?

R. Laxman: Absolutely we have taken that decision.

Dhananjay Mishra: Okay Sir. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: No, I got my answer it was on the tax rate, so effective tax rate Sir last year at the consolidated level was 36% and here before that was about 28 so what should be more at the consolidated level what should be the number?

R. Laxman: Pritesh currently it is about 32%.

Pritesh Chheda: It is about 5% lower it is about 28%.

R. Laxman: Yes 27%, 28% that is what I am expecting. The consolidated is a little bit of a misnomer for effective tax rate because I pay tax based on my standalone merged entity results in India and if my European operations do not give me the profits then my effective tax rate looks higher but actually that is not the case.

Pritesh Chheda: Thank you Sir.

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

Ashutosh Tiwari: Sir just wanted to understand we have almost like 419 Crores of cash on balance sheet how do we plan to use that?

R. Laxman: So I think we have gone through a very heavy drive on cash conservation working capital improvement resulting higher cash. There are couple of things one is we are definitely keeping this is a war chest for a potential acquisition and as I tell you as we speak there are fair amount of irons in the fire. We hope to close some of the transactions in the foreseeable future. Second we need to keep investing for BS-VI including capex as well as working capital and third in today's times in market I would prefer to set a little bit on extra cash though I appreciate and understand that all of us realize there is a small negative carry on that cash.

Ashutosh Tiwari: So basically this acquisition that you are talking about will be based in India or outside India what we are looking at?

R. Laxman: Can you say that again please?

Ashutosh Tiwari: So the acquisition that you are talking about will be based in India like Indian company or outside India we are looking at it?

R. Laxman: So our philosophy has been very clear, we are agnostic to geography, we are extremely focused on what we need which is point number one is it has to be adjacent to any of our business verticals and point number two it has to be relevant technology and it has to if possible bring us new customers. So if these three criteria is met then it is frankly geography comes as a point number four so to answer your question directly it could be in India it could be outside.

Ashutosh Tiwari: And lastly on KTSN, for last two years it have been tough and the way things are probably there is no positive side as of now, so have we thought about divesting the business ever or you want to continue it?

R. Laxman: To be very frank with you, we are familiar with that business and we see potential in improving the situation in the business in Europe and we also see potential. We have tasted success in transferring the technology into India and winning new orders from the best OEMs in India so this activity has given us confidence to resolve a little bit. We want to give it a good try in terms of how we stabilize and turn this around; however, coming to your question of whether are you thinking of divestment on a macro basis I can tell you that this is a continuous process we will continue to keep evaluating each of our businesses for their profitability and balance sheet returns so that on a overall average we keep increasing shareholders welath that exercise will not stop and if you ask me if KTSN is part of that evaluation the answer is yes.

Ashutosh Tiwari: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Mrunmayee Joglekar from Trivikram Consultants. Please go ahead.

Mrunmayee Joglekar: I had a couple of questions, Sir regarding the gross margins I see a pressure sequentially so is that solely because of the product mix change or is there some other factor involved?

R. Laxman: Not very clear can you pardon me sorry for that.

Mrunmayee Joglekar: My question is regarding the gross margins if I look at the sequential gross margins I see some pressure there so is it because of the product mix changes or is there some other factor to it and how sustainable or how will it continue?

R. Laxman: If you are looking at it sequentially I would say product mix has definitely impacted us because of commercial vehicles reduction has pretty high in respect to India and if you look at our consolidated results tooling sale increase has also definitely contributed for our pressure on gross margin.

Mrunmayee Joglekar: So do you expect that to continue maybe in the next couple of quarters?

R. Laxman: As we go ahead with our exercise on fixed cost reduction impact of the downward slide in volumes should be less impactful on our gross margins.

Mrunmayee Joglekar: And Sir one more question is it possible to share the revenue and PAT numbers for our three JVs separately?

R. Laxman: Absolutely let me just mail it to you offline I have shared this on the call as well, but overall it is about 488 Crores for the first half, I can share the breakup with you offline and I said majority about 60% of that is coming in my business vertical 2 and about 40% coming in business vertical 1.

Mrunmayee Joglekar: Okay great. Thank you.

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

Ashok Minda: That is the end of this conference call. I would like to tell you that yes this is a really challenging time considering the environment in the market situation and we have from the management we are taking lot of austerity measures starting from middle of the last quarter, whether it is reduction in the fixed cost or improvement in the cash flow, so this is ongoing and we are continuously doing that and this is a real challenging area and that is what where we are we all as a team we are working to improve both the things of the P&L as well as the cash flow. Thank you.

Moderator: Thank you. On behalf of KR Choksey Shares and Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.