"Minda Corporation Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Minda Corporation Limited Q1 FY2020 Earnings Conference Call. 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 Mrs. Parvati Rai. Thank you and over to Madam!

Parvati Rai: Thank you Nirav. Good evening everyone. On behalf of KR Choksey Research, we welcome you all for the Q1 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, Director and Group President (Finance), Mr. Sanjay Aneja, Chief Financial Officer Minda Corporation and Mr. Bikash Dugar, Lead Investor Relations. So, we will 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 Parvati. Good afternoon, ladies and gentlemen. I welcome you all to the Q1 FY2020 Earnings Conference Call of Minda Corporation. The financial year has begun on a really challenging note for the auto industry and it equally applies to our company also. During Q1 FY2020, our India business continues to outperform the market whereas our European operation continues to face the big challenges. Overall the company reported the revenue of 7083 million a decline of 9% on a year-on-year basis. The near terms outlook for the auto industries remain challenging. Thus more efforts are being put and various austerity measures have been implemented across the group. We are also evaluating our capex requirement and will be focusing on spending only in areas, which are critical for our future growth. I am also happy to announce you that today we have signed a technical assistant agreement with Infac of South Korea to manufacture automotive antenna systems. Now, we shall begin the discussion of the detail financial overview and insight on the operational performance. With this I handover the call to Mr. Laxman, our Group President (Finance). Over to you Laxman!

R. Laxman: Thank you Mr. Minda and good evening ladies and gentlemen. Thank you for joining us on a late evening especially on a holiday, so thank you much for that. I will be referring to the presentation that we have uploaded on the website and I shall also refer to the page number for ease of reference. We will take about 20 minutes to explain the results and the financials and thereafter we will keep it open for Q&A. On slide #3, the first positive news is that Minda Corporation has received the NCLT order for merger of five of its wholly owned domestic subsidiaries into itself. This merger has been in work in progress for the last nine odd months and also happy to share with you that across different jurisdictions and courts across India coordinating this merger, I believe this is being one of the fastest mergers under NCLT for a company of our size and scale. Of course the unified entity is going to benefit from efficiencies of scale, simplified corporate structure and host of other positive benefits.

Just to tabulate how the revenue even of the standalone company is changing I refer to this table on slide #3 wherein earlier the standalone entity of Minda Corporation would have recorded a revenue of about 1133 Crores in FY2019. If we consider the impact of the merger then MCL standalone post merger will almost more than double to 2370 Crores and this is because the following companies are addition to the turnover of this new standalone merged entity. Minda SAI, which is a wiring harness business, is adding about 1032 Crores. Minda Automotive Solutions will add about 295 Crores. Minda Autoelektrik is a company that is involved in manufacture of Starter Motors & Alternators that will add about 124 Crores and the balance is through Minda Management Services, which is again gets eliminated in consolidation and Minda Telematics, which is a company that we acquired in about two years ago a Bengaluru based tech and automotive company. So overall it makes the standalone stronger in terms of sales, profitability and balance sheet.

Now if you look at the schematic representation of our businesses, you will see that Minda Corporation that is the box in blue that will have all the domestic businesses under one corporate legal entity below that we will have only two boxes, one will be our 100% owned overseas companies, which is largely the KTSN group in Germany and we have Minda Group in ASEAN with Indonesia and Vietnam and the second box is three Indian joint venture companies, Minda Stoneridge, Minda Vast and Furukawa Minda. Effectively these are the joint ventures with different set of shareholders so that cannot be merged. So, overall the structure has become much more simple, easier to understand and all these subsidiaries are now part of the listed entity and will be subject to the same amount of governance transparency in disclosures that any listed company is.

Moving on to slide #4, the rationale for the merger are this amalgamation into Minda Corporation will result in consolidation of businesses, one it will create synergies amongst businesses they are no longer different legal entities, second it increases managerial efficiency and definitely higher transparency. Third, access to wider financial resources meaning the standalone entity is the strong balance sheet company, which can raise resources for the growth across these various business verticals and it will also benefit from a free movement of cash flow and treasury function within these various divisions, which were otherwise restricted because of legal entity structures. Point number four, it will amount to lowering of the cost structure right from not having to have independent boards that separate boards and management structures all the way up to tax efficiencies, management time efficiency, etc., I think it will definitely lead to better savings in cost.

Two points to be noted, one is there all assets and liabilities being transferred into Minda Corporation at book value and point number two, the merger is equity neutral in the sense that there is no dilution of equity at Minda Corporation Limited, no new equity shares are being issued as we are all 100% wholly owned subsidiaries that are being merged. So that is the point on the merger. Happy to take any questions later.

I am moving to slide #6 and this is reiteration of our summary of what businesses we do and what customers we have and what are the manufacturing locations. Continue to remain one of the leading automotive component companies now with four business verticals, mechatronics, which is safety security locking devices, etc., information and connected systems more commonly understood as wiring harness, sensors, etc., plastic interiors we do Kinematic parts largely in Europe and now we have started doing in India and aftermarket is where we sell the products that we make plus the products that we contract manufacture in the aftermarket within India.

Key customers, one of our greatest strengths continues to remain very strong. We have 34 manufacturing facility strategies located in India and overseas. Our R&D capabilities continue to be strengthen with our SMIT center in Pune. The breakup of revenue in Q1 between geography has remained largely similar except that Europe and North America has reduced a little bit. By end market, the focus has remained largely similar, which is two wheelers, passenger vehicles, aftermarket and commercial vehicles. Business by verticals you will see that our plastic interior business is now 17.5% earlier it used to 20%. Therefore, there has been a marginal increase in mechatronics and information and connected systems whereas the plastic interior business has fallen from 20 to 17.5, this is also because the sales in interior business has gone down.

Now, to quickly touch upon the automotive industry in India and where each of the segments have gone, you see that in the first quarter of FY2020 the passenger vehicle market degrew by 12%, commercial vehicle market degrew by 14.5%, the tractors degrew substantially at 20% and three wheelers degrew by 11.6%. One of the lowest to degrow by in terms of rate of decline was the two wheeler market, which degrew only by 10.1%. Again key reasons are definitely subdued economic environment, very low consumer sentiment, finance availability continues to remain a challenge and we have seen that the way NBFCs have been continued to be reluctant to offer finance, a delayed monsoon is also a key factor.

I like to now move to our results. As Mr. Minda mentioned, overall our revenue is at 708 Crores, this is a fall from 778 Crores, which is a 9% reduction; however, if you go one level lower into the revenue analysis you will see that our India business though Indian industry has fallen anywhere between 10% and 20% our India business increased by 1% and the fall is largely because of European business continues to remain challenging where the revenue has fallen substantially and I will go to the details in the next slide when I talk about verticals. In terms of other income, our other income has gone up from 4 Crores to 8 Crores largely out of the 8 Crores about 6 Crores odd come from QIP income, which is part of the interest income.

The EBITDA has moved from 9.4% to 9.5% and in number terms it gone down from 73 Crores to 67 Crores because of the fall in turnover and I will speak more about the EBITDA margin in a minute, but suffice to say that EBITDA margin is impacted by three big changes, one is one positive impact in India, negative impact in Europe and positive impact due to Ind-AS 116 and I will explain that in detail. Our profit before tax has gone down from 50 Crores to 32 Crores and our profit after tax is now at 21 Crores, which is a 3% of sales.

If you look at the next slide, which is the explanation for the fall, you will see that overall revenue has fallen due to tooling sales fall in Minda KTSN as compared to the same period. We lost a substantial amount in non-sale of tooling products that is because customers themselves probably have stopped or slowed down substantially the launch of new models or refreshing of existing models and because of that the pace at which tooling orders are coming into KTSN is substantially reduced that has impacted sales, of course sales of automotive itself in Germany has remained a challenge with almost zero rate of growth.

The Indian operations continue to outperform market and grew at 0.9%. The EBITDA margin has got impacted by about 100 basis points positively because of the Ind-AS accounting system where in lease accounting we have been as per compliance we have moved rental income down into depreciation and finance cost, therefore your EBITDA will look a little better as compared to the previous year, so though we have not readjusted the previous year it shows roughly 100 basis point increase. This is again offset by 100 basis point decrease in our interest cost and depreciation thus this benefit is not available to us at the PAT level and therefore at the PAT the net profit has gone down from 4.6% to 3% reflecting the actual change in profitability in our European business.

Coming to the slide #10 on business vertical wise growth, you will see that business vertical one, which is mechatronics & aftermarket, aftermarket has product largely from our first business vertical, so we have clubbed these two. We will see that the revenue has moved from 325 Crores to 334 Crores it is a 2.6% increase. This has largely happened because of very, very strong development in exports in die casting and of course holding of market shares and share of business with respect to the security division business in India. We had mentioned at times when the Indian market is a little rocky we will supplement it with growth in exports that is exactly what has happened to this business because our export margins are slightly more healthier and also because our raw material cost we have benefited due to savings as well as tighter control our EBITDA margin has increased from 10.7% to 12.8%.

Moving to the information and connected systems, you will see that our sales have largely remained steady of course it is a 1.3% drop. This business largely caters to commercial vehicles and two wheelers and given that the industry has fallen 10% and 15% this fall is marginal, so therefore revenue has moved from 253 Crores to 249 Crores. EBITDA margin has largely remained steady from 10% it is 9.7%, of course all the three verticals roughly 100 basis point can be attributed to change in the IndAS 116 accounting system.

The last segment, which is plastic interiors, of course our revenue has fallen from 199 Crores to 124 Crores, and most of this fall largely is because of non-sale or no tooling income sale during this period in Minda KTSN. The serial parts between Mexico and Germany put together have largely remained flat; however, given the fact that the business comes with a very high fixed cost, the fixed cost under absorption because of lower sales has resulted in the wiping out of our EBITDA margin, which in Q1 FY19 was 6.5 and now it is 0. As I had shared with you earlier, this business has been a challenge for us in the last couple of quarters and we are also mentioned that we continue to see this as a challenge for the whole of this year; however, we are taking certain concrete measures, which I shared earlier with respect to number one trying to increase the customer diversity of this business, number two trying to get some other customer so that we beat the industry degrowth and number three how to manage our fixed cost in a manner such that our breakeven points are reduced. These factors are still work in progress and I think it will take some few quarters for sure before we see improvement and changes in this vertical.

So when it comes to our order book we have a fairly healthy order book, we continue to have a healthy order book. In mechatronics we got in first quarter lifetime orders worth about 430 Crores, new orders received were in dye casting, we continue to meet our objective of doubling our exports through various products especially die casting over the next couple of years. We have been awarded new business by globally leading two wheeler OEMs for lock set this is about 87 Crores and we have been awarded also lock set business in ASEAN market. With respect to wiring harness and sensor business, which is information and connective system, we have won orders for about 960 Crores again wiring harness in two wheelers, wiring harness in passenger vehicles, and also instrumentation cluster for two wheelers. A small victory in the plastic interior business in Europe, we have got a new business to supply cup holders to a leading passenger vehicle manufacturer, the turnover is only about 24 Crores lifetime, but it is a big step for us in diversifying our customer base. Export business continues to remain absolutely robust. We have been awarded new business in two wheelers as well for lock set in exports as well as for die casting parts.

Moving to slide #12, we have said this slide last time and we had said that these were the challenges that we had put inside #12 as red, which is production cuts by OEMs, uncertainty of prebuying in third and fourth quarter because of BS-VI and tightening of NBFC’s financing ability. I think each of these three parameters we wrote down have only become more acute in Q1 FY2020 and therefore it is incumbent on us as a company to see how we try and maintain our profitability in the light of much lower sales. With respect to the positive aspect of course BS-IV to BS-VI will be a big positive for us. We continue to believe in that and we think we will benefit except that when the sales actually occur whether it is January or February or April is the open question right now. Lower inflation and interest cut by RBI, they have done their bit now we have to look forward to the financing industry passing over the benefit. Commodity prices have fallen and we have benefited from it. Globally of course we continue to be impacted by emission norms, slowdown in China as well as Brexit negotiation impacting consumer sentiment. There has been a deferment of hike in interest rates across geographies, which is good for us. Our response in mechatronics we told that we will grow the die casing business through exports that continues to be very, very robust in fact just our die casting exports alone in the first quarter moved from 11 Crores in the same quarter previous year to 29 Crores in the current year that has been a very sharp jump for us. We have added new customer as well as gained market share in the premiumization part. Information and connected system, we are still working on increasing exports in wiring harness, gaining market shares as well as share of business and of course we are looking at acquisition opportunities in the wiring harness business. Plastic interior business, I mentioned our main goal now is to reduce breakeven levels because sales are not going to jump dramatically given the economic situation there, so therefore reducing breakeven level is our prime task and diversification of customer base is our next. Aftermarket we will enhance growth by adding new products, we would like to beat the industry by focusing more on this and in SMIT of course we are up grading legacy products and developing new products with the help of technology.

We continue to win awards and on slide #14 I must mention that Minda SAI, which is now part of Minda Corporation as wiring harness business, got certified as a great place to work, we only wish that we get more such awards across our various divisions. We have got appreciation awards from key customers like Ashok Leyland, we have got appreciation awards for Minda Stoneridge and also to Minda SAI and VAST, so a fair amount of awards that have come in this year. In terms of recognition in other areas on slide #15, we started a very innovative concept called Minda Mitra, which we actually inaugurated as state of the art live garage for training mechanics with practical and theoretical segment sessions under guidance of technical experts in the premises of our factory in Noida where we actually strip open a two wheeler and you see it running and you also get trained down how to repair it, so these are the few initiatives we have done in the current quarter. Of course our focus continues to remain in terms of growth, in terms of containing our cost such that we continue to display respectable profitability in a year of challenge. That is all from my side and as a team we would be happy to take any questions that you may have. Over to you.

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

Ronak Sarda: Thanks for the opportunity. First question on the BS-VI order wins given the OEMs now started to transition to BS-VI vehicles already, can you just highlight about order wins in wiring harness or are they still some orders not decided yet and same for sensors?

R. Laxman: Ronak, we had mentioned that because of BS-VI our wiring harness business, the EFI part was to move from about 300 Crores to 900 Crores, as I checked we had already won orders to the extent of approximately 700 Crores, but to specifically answer your question of whether the 700 Crores flow has changed I would imagine that it may change by a month here and there, but I do not think we have received any drastic communication with respect to change of adoptability with respect to BS-VI wiring harness. Mr. Minda if you have any further comments?

Ashok Minda: The share of business percentage is definitely going to remain the same, which we were having presently. So the same share of business percentage will be there; however, the premiumization is going to happen. Yes, there is that we required big scope of the cost reduction in times to come for the localization and all that.

Ronak Sarda: What I meant to ask was 700 Crores will move to 900 Crores is the order wins still not decided yet by the OEM or how do you see that?

Ashok Minda: So, let me be upfront. We have no reason to fear that market share will go to somebody else. It is only a question of time where we catch up and complete that same number from 700 to converting those initiatives into firm orders.

Ronak Sarda: Sir, same on sensors?

Ashok Minda: On sensors, whatever we have planned because that was not using before, so the wiring harness we were having certain share of business and if you would not have got it with the same share of business we would have been in trouble, but that is not the case the same case in the sensors, our EGT and EGRT sensors from Mahindra & Mahindra and other customer is purely additional business.

R. Laxman: So, what you are saying is in wiring harness there was protecting territory in sensor and capturing new client.

R. Laxman: Correct.

Ronak Sarda: But the amount, which we are targeting earlier that we received or we are targeting around 125 to 150 Crores odd in sensors business?

R. Laxman: Yes.

Ashok Minda: I said we have already got the amount.

R. Laxman: That is correct.

Ronak Sarda: Sir, in slide #11 that you highlight the order wins, so there is one order win in the casting space in the first bucket and then there is something else in the last bucket in exports as well are they two different orders or can you just explain that?

R. Laxman: They are two different orders and they split amongst the three customers that we have already shared with you Ronak.

Ronak Sarda: So, the mechatronics one is also exports right or is it for India business?

R. Laxman: This is domestic the first bullet the one below is exports.

Ronak Sarda: But are they for the turbocharger housing for the domestic market is something different?

R. Laxman: I will have to check that specific line, Ronak I will get back to you.

Ronak Sarda: Second, on the same segment the aluminum prices are down to 20% if you look at the LME rate, how does that impact, the revenue pass through has happened and subsequently margins would look stronger?

R. Laxman: No, we have back to back arrangement from almost all the customers, so we cannot rejoice too much because the prices have fallen Ronak because we have protected ourselves with back to back arrangements on the raw materials.

Ronak Sarda: Right and on the overall austerity measures, you can just highlight what steps have we taken to reduce the breakeven point and at the same time new order wins are happening, so how does that pan out for the company as such?

R. Laxman: I will talk about austerity measures taken in India separately, you meant India right?

Ronak Sarda: Yes, for India.

R Laxman: So, I will talk about austerity measures that we have taken in India, in fact like many other automotive company we also started this very earlier in the first part of the Q1 itself, where we have actually created austerity measure war room in our corporate office and we have identified the areas, which we are going to attack with respect to reduction of cost and what is going to impact our profitability and second what is going to impact our cash flows. In terms of profitability, we have been extremely now strict about what is the incremental business we take and what is the profitability of that because when sales start going down you end up starting for attacking new businesses and taking those businesses point number one. Point number two we have looked it our fixed cost structure and we are seeing all that we can do with respect to each of the heads of items even a small item like travel, items like what we do with each of our expense heads on our overheads we have seen. Third a big topic is on manpower, there we have also taken a conscious call to give increments only up to a particular level, at the senior level we have held back the increments saying that once things get better we will reconsider, so each of these measures we expect to contain our cost, I am not saying because of these measures we may drastically change EBITDA in a falling market scenario, but we will definitely be successful in containing our cost structure such that we continue to deliver EBITDA, which are comparable to our past. Thank you for reminding me Mr. Minda, regarding the cash flow we are now accelerating our goal towards the reduction of working capital days and going to release significant cash flow into the system and we are also have consciously taken a call to drastically cut down on capex, which is not going to impact any of our customer delivery timelines. These two measures will release a fair amount of cash flow and of course also indirectly benefit my P&L.

Ronak Sarda: Sure Sir and the last question is on this new tech agreement, which you have signed for the antenna systems, can you elaborate a bit more on this, how large will be the opportunity size is, what would be the product deals?

R. Laxman: If you look at the entire technical alliance we are talking about is for antenna systems. In India we are moving from pole type antenna to shark fin antenna, from low medium to high medium frequency antenna and in fitment from non-embedded we are moving towards embedded antenna. Effectively this entire market today is roughly estimated to be about 175 Crores, this technology is not so prevalent with Indian manufacturers and therefore we have tied up with the leader in this business in Korea, he has a huge presence in Korea and also has business from Hyundai. We expect to through the technical assistance start manufacturing or assembling these products in India over a year or so and then populate that into Indian OEMs that is one part. However, we expect this relationship to get stronger as both parties get to know each other and I may not be wrong in guessing that our objective is to move this TA eventually into a joint venture.

Ronak Sarda: Sure, I mean the product as well or just for the antenna?

R. Laxman: This Company is a $500 million group in Korea and apart from antenna they also have control cables and a host of other things, but currently the best fit that they came across with respect to technology and market demand appear to be antennas and that is how we have ventured into this.

Ronak Sarda: Thank you and all the best.

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

Chirag Shah: My first question is on the new order in the page 11, you have indicated a wiring harness business from a passenger vehicle OEM, is this in the JV or it is in our 100% owned businesses?

R. Laxman: 100% owned businesses, Chirag.

Chirag Shah: And is it an existing core relationship or it is a new relationship, it is possible to elaborate on that who is the customer if possible?

R. Laxman: So, it is an existing customer for a new product.

Chirag Shah: And when you say lifecycle are we assume 5 years?

R. Laxman: Approximately, yes.

Chirag Shah: Second, I was just looking at our results for the quarters and two, three things, which I would like to understand, one if I look at YoY analysis this time the drop in EBITDA is far higher for us for a 10% decline in revenue, we have never seen this kind of a pressure on profitability and if I ignore the Ind-AS adjustment and its positive effect on EBITDA then the impact seems to be much faster, so how do we read this, is it a largely OEM pressure, which is resembling in P&L pass through has not come across or this is more of a business mix because sequentially if I look our KTSN business, which has been a slight pinpoint it has not deteriorated that much, and this die casting revenue has gone up for us then ideally margin should have been reasonably better and which has helped us on a sequential basis?

R. Laxman: Chirag, I will share the numbers with you. If you look at my Indian business that is now I call the MCL merged entity, which is Minda Corporation, Minda SAI, etc., put together, the EBITDA margin has moved from 10.5% to 11.4%, and that 1% increase is because of Ind-AS accounting system for Q1 to Q1, so therefore there the EBITDA margin fall in fact it is no fall at all even if you adjust for accounting system it is a steady EBITDA. Now what is happening is it is about 18% of my turnover is coming from KTSN and there the EBITDA margin has gone from 6.5% to 0 that is where I have got impacted overall and that is why the consolidated number looks to be a fall. So from previous quarter to the current quarter again the fall is much steeper with respect to in the merged entity again from Q4 to Q1 our EBITDA margin has gone down from 12.9 to 11.4.

Chirag Shah: And I see a raw material is one of the issue, so cost positive has not happened for us or is it because of our nature of revenues that we have the mix that is the reason or how should we look at it?

R. Laxman: So, raw material is not the big reason Chirag because I will tell you on a standalone basis and on a consolidated basis raw material has, for example in a standalone basis raw material has changed from 62% to 61%, raw material is not reduced sorry, you are looking at Q4 and Q1 right?

Chirag Shah: Yes.

R. Laxman: Q4 and Q1 my RNC is the same.

Chirag Shah: Negative operating leverage?

R. Laxman: Yes, as our RMC remains the same.

Chirag Shah: Second question is on this transition to BS-VI is it any indication coming on how OEMs are thinking and absorbing the cost because given the demand environment they may not be able to pass on to the end customer and hence some of the vendor especially those who have good balance sheet to absorb them, so has any indication like someone like Minda Corporation whose balance sheet is reasonably good they may request to absorb some of cost, is there any indication coming from there and what are our past experiences in the previous cycle, how much of pressure generally we see on that?

R. Laxman: See, definitely yes, but you said there is a big pressure the cost has increased because the good thing is that it is having with every of the OEMs, so all their competitors like all our customers, say for example in two wheelers they have to increase the price, so it is not like that somebody is increasing somebody is not increasing so that is the good advantage everybody is increasing. Nevertheless the end user the cost is increased, but that is why I said the EBITDA margin in earlier wiring harness versus three time increase there is a scope of localization and that the margin will improve subsequently, but otherwise like general pressure or undue pressure there is not, we have not received any of this indication from the customer to reduce the price because they have increased the price.

Chirag Shah: And second question on this staff cost, is it possible to indicate that apart from the benefit that you indicate on account of merger of your entities, what kind of employee there that we have and how are you looking to increase the revenue in the existing employee base because it has been one of our effort over a period of time to reduce the staff cost, so is it possible to indicate that cycle turns around what kind of incremental employee addition we look at it and how are you trying to change that business coming forward because in the past our staff cost has been an issue for us even when the demand cycle has been good?

Ashok Minda: See, the staff cost if you see that still it is high and as I said last time also that the outcome and all this planning part from or the execution has already started of E&Y, which has done all the study, but you know to manage the human feel and human touch it is a process, which cannot be done abrupt, so we are already in the process where we have seen that people, which cannot fit in the organization structure, so that there is a gradual process to get the advantage of the cost particularly. From the merger point of view there are going to not a significant improvement of the employee because the merger equity rest operationally there is no difference whether we merge it or not merge it, but yes, there are some benefit, which is insignificant that legal and secretarial and this compilation, those areas which is going to give the benefit, yes, still lot of things to be done in this personal cost.

Chirag Shah: Last question on KTSN, any comments that you are getting from those business heads over there, is the worse behind or there can be some more pressure?

R. Laxman: I will take that question Chirag. See it is not a question of whether it is going to get worse from here, our focus is more on how we are going to improve from here and how long will it take, so the current quarter at the PAT we have had a more than a million euro in PAT loss and that has got absorbed at the consolidated level, the whole exercise is in trying to see how I can reduce my cost structure such that I come out of it sooner than the industry comes out of it. In terms of getting worse I do not think it is getting any worse from where it is today.

Chirag Shah: Because it seems tooling is an extremely profitable business unless tooling part comes back to us, there could be some pressure that seems to be the understanding on the KTSN.

R. Laxman: You are largely correct about it Chirag, but instead of waiting for tooling sales to come back to give us the profitability we are moving towards trying to pick up profitable serial part sales to come back to profitability because tooling sales coming back will take a while.

Ashok Minda: And it is always the investment in the tooling is so substantially high, so for us it is important that how to do better from the serial part.

R. Laxman: But I agree with you Chirag, MKTSN is a challenging task which we are actually facing to be very frank.

Chirag Shah: This is helpful. All the best.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Yes Securities Ltd. Please go ahead.

Prayesh Jain: Just a couple of questions, firstly on the domestic business, what kind of orders you have been getting for the month of August and September from the OEM?

R. Laxman: Did you say order flow?

Prayesh Jain: Yes, basically the indicative production schedule, how are they being in terms of Y-o-Y basis, are they improved or vis-à-vis?

R. Laxman: No, we are seeing challenges, which is worse than Q1 to be frank with you.

Prayesh Jain: Any particular segment where you are seeing much more pressure as compared to any other segment?

R. Laxman: So, the pressure is always coming more from commercial vehicles and relatively less from two wheelers that is the trend we are seeing with respect to our business price because the two wheelers that we supply to OEMs they have seen a slightly smaller fall than industry, so if you ask me to prioritize it will be more pressure from commercial vehicles, tractors and two wheelers in that order.

Prayesh Jain: That is helpful and secondly on the wiring harness side, when you say that your revenues will grow from 300 Crores to 900 Crores, how would be the trend in terms of EBITDA margins whether you will be able to maintain the percentage margin or you might have to take it?

R. Laxman: What we have shared earlier and I would like to repeat is that initially we will face pressure in EBITDA margins largely because the pace of localization will take time, initially a lot of these parts we will be taking directly from suppliers overseas, so therefore initially we see the EBITDA margin falling for this particular business and in a year or so, as the OEM quickly accepts our localization projects we expect this EBITDA margin to come back to the numbers that we are earning today in this business, so therefore you will see some pressure for one year though it will be only a margin pressure and not a quantum pressure because the quantum of sales is almost tripling that will give me cash in my system, which will help me a lot.

Prayesh Jain: And any further plan for inorganic activity, which are there on the cards?

R. Laxman: So, now the inorganic activity list is increased, Prayesh; however, we have not yet closed out on any transaction and trying to see if we can get better value because now given the downturn my payback period in each of these evaluations have only increased, so therefore I will have to proportionately reduce the ask as well.

Prayesh Jain: Are the offers coming at a price, which is attractive to you guys?

R. Laxman: Not yet, otherwise I would have announced the term sheet with you today.

Prayesh Jain: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Praveen Motwani from KR Choksey Shares & Securities Pvt. Ltd. Please go ahead.

Praveen Motwani: Thanks for the opportunity. Sir, I have two questions, how much capex you will do for FY2020 and FY2021?

R. Laxman: Sorry, I missed that question. Can say the question again?

Praveen Motwani: Yes, sure. How much capex we will do for FY2020 and FY2021?

R. Laxman: See, our annual capex normally has been in the range of 100 plus Crores and for FY2019-FY2020 we have expected Praveen the capex to be more closer to 200 Crores. Now given the situation and as I mentioned that we are going to every capex with a toothcomb we do not expect our capex to reach those levels in FY2019-2020 itself, in fact it maybe a little more than what we spent in FY2018-2019. However, if you look at an average number every year it is roughly 100, 125 odd Crores to the exception of special projects we might have done in die casting a year-and-a-half ago or in wiring harness EFI, which we will be doing in the current year. So roughly that is the number.

Praveen Motwani: And Sir can you just give us a breakup of die casting domestic and exports?

R. Laxman: If you look at our die casting business overall in the first quarter our sales was 75 Crores as compared to the same quarter previous year was 59 Crores so that is a 28% jump, that has been largely driven by increase in exports, domestic sales have been largely steady give 1% increase, but export sales have jumped from 11 Crores, which we did in Q1 of FY2019 to 29 Crores in Q1 of FY2020 that has been a huge jump.

Praveen Motwani: And Sir is it possible for you to give us a breakup of wiring harness, sensors and instrument topline?

R. Laxman: I do not have it in that category, but I will tell you the turnover of our joint venture companies and that will largely reflect exactly what you are asking. For example the turnover of my joint venture companies for the first quarter has been as follows. If you look at Minda Stoneridge, the first quarter turnover has been roughly about 100 Crores this is, company is largely into instrumentation cluster and sensors. This company has seen a slight dip in its turnover compared in the same quarter previous year. Minda VAS, which is more into access systems and door handles and similar products, there again the sales has roughly been around 50 odd Crores. The third joint venture is Furukawa Minda there the sales has been flat again, this company supplies wiring harness to Maruti Suzuki largely. So if you see the three companies' turnover individually is about 100 odd Crores and totaling about 250 Crores per quarter.

Praveen Motwani: Sir if you can just elaborate on profitability of all the three joint ventures during this quarter?

R. Laxman: See to be frank with you my profitability does not directly come to me because of the accounting standards we consolidate only at the PAT level, so it is suffice to say that of the total PAT that I have I have added about 2.8 Crores as my share of the joint venture profits in Q1 across all the three joint ventures put together. With respect to profitability of each of them their PAT is more in the range of roughly odd 5%.

Praveen Motwani: That is it from my side. Thank you.

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

Ronak Sarda: Sir just a followup, the capex, which you are highlighting, can you break it up in terms of specifically which got swing for wiring harness, for EFI and sensors business?

R Laxman: I do not have it Ronak onhand, but I can make it available.

Ronak Sarda: Okay sure, I will take it offline and Sir, but is it suffice to say given the import sales would be high initially while EBITDA margin will see a dip the capex is also slightly lower?

R. Laxman: No, actually because the capex is more for the lines Ronak, so I am not expecting a huge fall in capex, localization will reduce cost, I do not think it will reduce my capex, initial capex.

Ashok Minda: Overall for the Company definitely the capex is going to reduce from initial plan.

R. Laxman: Yes.

Ronak Sarda: Sure Sir. Thank you.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang Equities Private Limited. Please go ahead.

Jehan Bhadha: Sir one of the previous participants asked a question on if you can just explain because the share of profit from JV has actually come down from sequentially as well as from last year, so any particular reason for the JV profit coming down?

R. Laxman: Each of these businesses have seen some challenges you are right from 4.9 Crores my share has come to 2.9, but it is also one reason is because my percentage holding in Furukawa also come down from 50% to 25% that is one reason and the other reason is of course lower sales in both the other two JVs.

Jehan Bhadha: Second question is on if you can explain the addressable market of sensors and what kind of topline can we achieve in this business let us say in two or three years?

R. Laxman: See the sensor market is very wide and very diversified, there are people who estimated the entire market to be even close to 3000 odd Crores, but the sensors that we are addressing with the technology we have in the collaborators technology for example Stoneridge is a leader in the sensor business especially in EGRT sensors and the other sensor is soot sensor where they are leaders. So effectively in this segment we are estimating the market to be about 400 odd Crores, which is EGTS and EGRT sensors and we have managed to win orders close to 120 odd Crores. So that is the kind of penetration we are talking about.

Jehan Bhadha: And lastly on the export side how are we performing for the first quarter and for this year what kind of exports sales are we looking at?

Ashok Minda: Overall with respect to exports as a result it is largely driven by what we have in our die casting business, if you look at the group as a whole we have moved from about 47 Crores exports in Q1 of FY2019 to about 63 Crores in exports in first quarter of FY2020. Of course this also includes a small amount of exports, which our overseas entities do, but even if you remove that you will still end up with at least 60 odd Crores of exports, so therefore exports as percentage of sales has gone up from 6% to 9%.

Jehan Bhadha: That is all from my side. Thank you.

Moderator: Thank you. Due to time constraint that was the last question. I now hand the conference over to Mr. R. Laxman from Minda Corporation for closing comments.

R. Laxman: Thank you and ladies and gentlemen thank you very much for dialing into our call and hearing our performance as well as what we have in store. Just to recap we see 2019-2020 to be a challenging year and we are prepared to face that in terms of one trying to consolidate and protect our existing business and two trying to maintain our profitability by keeping a tight control on cost as well as remaining completely focused on our exports business, which we expect to nullify some of the impact that we have in the domestic business. So that is the overall summary I thank you again for joining in and have a good day.

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